FINANCIAL TIMES

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Philippines: rebels keep finger on trigger, Page 4

World news

Zambian food price riots bring death toll

President Kenneth Kaunda of Zambia declared a dusk-to-dawn curfew in copper mining towns after at least eight people were reported to have died in riots over rises in the price of food. The Government also closed the country's land frontiers to out-going travellers, but international air traffic continued normally.

The moves followed a day of increasing violence, in which rioters went on the rampage, looting shops and stoning cars and buses. The official Zambia News Agency said that police had fired on stone-throwing crowds, in clashes "of marked intensity and ferocity." Page 26

Palestinian shot

Israeli troops shot and wounded a 16-year-old Palestinian in the occupied Gaza Strip as Arabs hurled stones and blocked roads in the sixth straight day of protests against Israeli rule, the army said. Page 4

Lebanon fighting

The Palestinian Liberation Organisation pressed for guarantees that a ceasefire in Lebanon's "Camps War" would hold as renewed fighting in southern Lebanon shattered the third truce in four days. West Bank tensions, Page 4

Ceasefire to begin

A Philippine Government negotiator said last-minute hitches had been sorted out and a 60-day ceasefire between communist rebels and the Philippine Government would begin at noon tomorrow. Left's strategy, Page 4

Newsman ordered out

South Africa has ordered Los Angeles Times correspondent Michael Parks to leave the country by December 31, the Home Affairs Ministry said. Crackdown expected, Page 4

Basque deported

France deported suspected Basque guerrilla Juan Elias Murguiondo, 39, to Spain in the 24th expulsion since France began a crackdown last July on separatist refugees, Spanish police said.

Ambassador returns

Austria is sending its ambassador back to Israel, following his recall in October, to express its wish for good relations between the two countries, Chancellor Franz Vranitzky said.

Thatcher hits back

British Prime Minister Margaret Thatcher, angered by criticism from EEC ministers on the failure to deal with EEC finance, turned on her colleagues in Strasbourg with a sharp denunciation of financial discipline in the EEC and a defence of Britain as "leading the pack in facing the real problems." Earlier story, Page 3

Air space 'violated'

Cuba charged that a US SR-71 Blackbird reconnaissance plane violated its air space twice by flying the entire length of the island from west to east and then in the opposite direction.

Kennedy unwelcome

Poland ruled out a Christmas visit by US Senator Edward Kennedy during which he intended to present human rights awards to leading dissidents and meet Solidarity leader Lech Walesa.

Chinese demonstrate

Several thousand students staged a demonstration in the Chinese city of Hefei to call for democracy, Japan's Kyodo news service reported.

Iraqi "air attack"

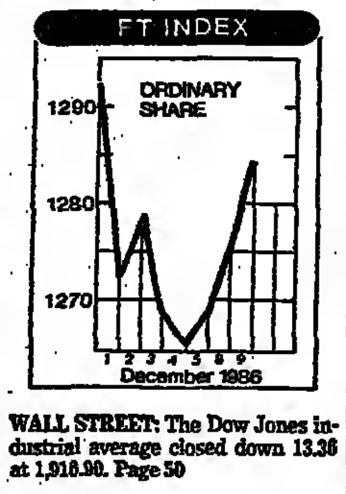
Iraq said its warplanes had attacked a power station at the west Iranian town of Hamadan, 280 km southwest of Tehran.

Business summary

Cockerill chief 'to take over Renault'

BELGIAN Government officials said that Raymond Levy, who for the past year has headed the state-owned steel group Cockerill-Sambre, has been asked to take over Renault, the French car company. Page 26

LONDON: Equities closed near the day's highs but gilts saw their gains trimmed. The FT Ordinary index gained 8.9 to 1,284.4 and the FT-SE 100 rose 12.5 to 1,635.9. Page 50



WALL STREET: The Dow Jones industrial average closed down 13.36 at 1,916.90. Page 50

TOKYO: A late wane in buying interest pushed prices lower and the Nikkei average fell 107.98 to 18,802.72. Page 50

GOLD fell $2.25 to $387.0 on the London bullion market. It also fell in Zurich to $387.75 ($389.75). In New York, the February Comex gold settlement was $390.4. Page 42

DOLLAR closed in New York at DM 2.0190; SFr 1.6920; FFr 6.6145 and Y162.625. It rose in London to DM 2.0190 (DM 2.0095); it also rose to Y162.60 (Y162.35); FFr 6.6175 (FFr 6.5825); SFr 1.6900 (SFr 1.6785). On Bank of England figures the dollar's exchange rate index rose from 111.0 to 111.2. Page 43

STERLING closed in New York at $1.4270. It rose in London to $1.4230 ($1.4205); it also rose to DM 2.8725 (DM 2.8550); Y231.25 (Y230.50); SFr 2.4050 (SFr 2.3850); FFr 9.4150 (FFr 9.3500). The pound's exchange rate index gained 0.3 to 68.0. Page 43.

UNITED TECHNOLOGIES, aviation company that Harry Gray built into one of America's largest conglomerates, announced an extraordinary $592m pre-tax charge to profits to account for restructuring costs and the early retirement or departure of large numbers of middle management. Page 27

SOUTH AFRICAN Reserve Bank has cut the bank rate from 10 per cent to 9.5 per cent after two days of discussions on monetary policy and interest rates with the clearing banks, merchant banks and building societies.

OIL: Organisation of Arab Petroleum Exporting Countries, hit by the oil price crash and internal rifts, suffered a fresh blow with news that its Libyan chief executive, Ali Attiga, is preparing to quit.

AUSTIN ROVER'S net losses rose 153 per cent to £56.9m ($80.7m) last year, taking the state-owned company's accumulated deficit to £1.026bn. Page 8

JAPAN'S trade surplus fell 6 per cent to $7.35bn in November as exports volume fell. Its trading surplus with the EEC widened, however. Page 6

COFIDE, master holding company of Italian entrepreneur Carlo De Benedetti, approved a plan to "reward" shareholders who have suffered because of the surfeit of non-voting "savings" shares on the stock market with a L27bn ($19.4m) rights issue and a bonus share distribution offer. Page 28

DEERE, world's largest manufacturer of farm equipment, lost $139.7m or $2.06 a share in the fourth quarter to October in the face of a weak North American farm economy and a crippling three-month strike at all its main factories in the US. Page 28

Chirac postpones legislative plans in wake of violence

BY DAVID HOUSEGO IN PARIS

MR JACQUES CHIRAC, the French Prime Minister, yesterday announced a postponement of much of the government's current legislative programme to prevent further controversy in the wake of the conflict over its university reform bill.

Among the measures to be put back are the new nationality law which makes it more difficult for immigrants to gain French citizenship, the five-year defence budget for the armed forces, and legislation to involve the private sector in prison construction and management.

The extraordinary session of parliament due to have been held in the new year has been abandoned – meaning that the National Assembly will not meet again until April after rising shortly before Christmas.

Mr Chirac made the surprise announcement to a meeting of deputies from his own neo-Gaullist RPR party and from the centrist UDF, the other partner in the coalition. His own followers reacted with relief, believing that it will give the government a pause for breath and allow time to heal the divisions within the Government's ranks caused by the university issue and the police violence.

Among the UDF, there was more the sentiment that Mr Chirac was further revealing the Government's weakness in so precipitately putting off much of its legislative programme after being forced, under pressure, to abandon the university law. Many deputies spoke privately of the risk of a "paralysis" of government over the coming months.

President François Mitterrand, speaking in a lengthy radio interview last night, said the Government was right to slow down the pace of legislation. After the "wisdom" of withdrawing the university bill, he said that it "was worth letting passions cool so as to permit a return to the national cohesion that I want with all my heart."

Mr Mitterrand, who is the main political beneficiary of Mr Chirac's humiliation, projected himself in the role of national arbiter as having the "prime responsibility" in the country. He made clear, however, that he felt himself to be on the same "wavelength" as the youth movement demonstrating against the university legislation while distancing himself from the police violence on Saturday night when a young student died after truncheon blows.

In postponing the legislation Mr Chirac's intention is to avoid measures that could meet further hostility from public opinion or revive the divisions within the coalition.

The new nationality law has already been attacked by the opposition Socialist party and could well have brought further student demonstrations on behalf of the immigrant community. Equally, there has been a strong campaign against the "privatisation of prisons" which is seen as a symbol of the excesses of the Government's free market philosophy.

With controversy so strong on both measures, and in the light of the conflict over the university reform bill, it would not have been possible for Mr Chirac to have bypassed parliamentary debate by invoking extraordinary procedures. Until now the Government has rushed through legislation either by decree or by making bills an issue of confidence.

In the depressed mood among deputies on the government benches yesterday, some believed that the divisions opened up by Mr Chirac's handling of the crisis will leave scars for a long time. One said last night that "there is an atmosphere of the political in-fighting of the Fourth Republic, with any blow below the belt being possible."

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Thomson plans link with SGS on super-chip

BY PAUL BETTS IN DALLAS

THOMSON, the nationalised French defence and electronics group, is teaming up with SGS, the Italian semiconductor manufacturer controlled by the Italian state IRI group, in a FFr 1.5bn ($229m) programme to develop an advanced super-memory chip.

The joint four-year project is expected to be approved by European ministers in Stockholm next week as part of a series of eight European high technology projects to be adopted under the French-inspired Eureka European high-technology programme.

Thomson and SGS are planning to develop jointly a new generation four-megabit Eprom chip. Eprom (erasable programmable read-only memory) chips do not lose their memory when the power is switched off, unlike a random access memory or Ram. The Eprom market, however, is much smaller than the Ram market, amounting to only about £160m ($230m) a year in Europe at present.

The proposed Thomson-SGS joint venture highlights current European efforts to establish a position in the world semiconductor market, which is dominated at present by US and Japanese companies.

The most important project of this kind is the three-year-old collaboration between Philips of the Netherlands and Siemens of West Germany in the production of 1 megabit Drams and Srams (dynamic and static random access memories), the workhorse chips which provide the main memory function in computers and domestic appliances.

This collaborative venture is now on the point of commercial production, and Philips and Siemens have recently gone a step further and launched a joint programme to develop more advanced four-megabit Dram and Sram supermemories. Largely because of this rival programme in Ram technology Thomson and SGS selected Eprom technology to develop their new advanced chip.

The link with SGS also marks a significant shift in Thomson's strategy. During the past three years the French group has been seeking to build up a major presence in semiconductors largely on its own, last year acquiring the main asset of the US Mostek semiconductor group from United Technologies.

However, having established a manufacturing base in France and the US, Thomson is seeking collaboration with other European partners. The French group, which expects to lose FFr 200m in its electronic components division this year, is thus aiming to spread the heavy costs of developing new semiconductor products.

Poisonous row over the dump where East meets West

By David Marsh in Bonn

SCHOENBERG is a synonym for discord, and has even been bracketed with rubbish by some musical traditionalists. So it is not entirely inappropriate that the East German town of this name is at the centre of a cacophonus row over finding a home for hundreds of thousands of tonnes of toxic West German industrial waste.

The townspeople of Lübeck, on the north German coast, which lies only three miles away from the huge rubbish dump opened at Schoenberg – on the other side of the border – in 1981, have protested for several years over the estimated 290 lorryloads-a-day of waste that pass through the area on their way to the East.

The Lübeck authorities are now taking the extraordinary step of bringing court action against every West German state (Land) except Bavaria, with the aim of stopping all waste shipments to Schoenberg by December 20.

The actions have already succeeded in closing the border to waste traffic from Hesse, and court proceedings against Hamburg started this week.

The moves have caused consternation, above all in the chemical industry, about what to do with roughly 1m tonnes of waste that cross into Schoenberg each year from West Germany.

Mr Egon Hilpert, the official responsible for internal affairs at Lübeck city council, said yesterday that the courts were legally bound to stop all waste crossing to Schoenberg until it could be proven that the dump posed no danger to the city's water supply.

"Everyone wants to dump their waste somewhere else rather than outside their own front door," he said.

Pointing out that studies had shown there was a "residual risk" of poison from Schoenberg seeping down to the water table, he called on the other German states to provide their own disposal solutions rather than unload the problem on his city.

East Germany opened the dump to win much-needed foreign exchange. West Germany, with most other big European countries, has faced increased difficulties, in disposing of industrial waste in recent years as a result of tighter West European safety guidelines and intensified public concern over the environment.

Italy, France and Belgium also send waste to Schoenberg, paying

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Strauss expects victory, Page 26

Poindexter, North refuse to testify on Iran arms

BY STEWART FLEMING, US EDITOR, IN WASHINGTON

TWO FORMER White House officials at the centre of the Iran arms controversy yesterday refused to answer questions about the affair during congressional hearings broadcast nationally by all three major US television networks.

The refusal by Vice Admiral John Poindexter, the former National Security Adviser, and Lt-Colonel Oliver North, to testify before the Democrat controlled House Foreign Affairs Committee is a further embarrassment to President Ronald Reagan. The President has been seeking to regain the initiative in the Iran arms scandal by avoiding any suggestion of a cover-up and by pledging co-operation with the congressional investigations now underway.

But the refusal by the two men to answer questions on the grounds that they have the right not to risk incriminating themselves, appears to undercut Mr Reagan's commitment to get the facts out. Opinion polls suggest that the American people do not believe the explanations which Mr Reagan has offered so far.

The credibility of the Administration is also being weakened by its refusal to respond to charges that the White House knows more about the affair than it is telling.

Yesterday, Mr Larry Speakes, the White House spokesman, ducked the question of whether President Reagan approved in advance an indirect shipment of US arms to Iran through Israel in August last year – as claimed by former National Security Adviser Robert McFarlane in Monday's hearings before the House Foreign Affairs Committee.

"I checked with a number of officials. No one recalled the President giving any approval," Mr Speakes said, adding that it was "not fair to ask them" until "they review their records... to refresh their memories."

But it is the drama in the Foreign Relations Committee where for the first time before a national television audience two serving military officers found themselves depending on their rights under the Fifth Amendment to the Constitution which have pained Mr Reagan's political allies.

Lt Col North, appearing in his military uniform with his decorations for bravery pinned to his chest – his voice choking with emotion at one point – told the hearing in response to a question from Representative Lee Hamilton (Demo-

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Shultz's mission in Europe, Page 4

US may fund plans to boost chip-makers

BY LOUISE KEYHOE IN SAN FRANCISCO

A US Defence Department task force is recommending funding of more than $1.6bn – for a five-year "Defence Semiconductor Initiative" to combat the growing dependence of the US military on foreign chip supplies – and restore the international competitiveness of the US semiconductor industry.

The Defence Science Board (DSB) task force will call upon the US Government to intervene to prevent "the erosion of the US semiconductor industry and the consequent decline of the high technology base on which both the US defence and economy rely."

The task force in a report to be published soon, is said to call for $250m annual funding for a semiconductor industry consortium that would set up an advanced production facility for Dynamic Random Access Memory (Dram) chips.

In addition to recommending funding for the Defence Semiconductor Initiative, the report is said to call for additional funding of $85m annually for research and development in integrated circuit technologies at government laboratories; new funds to expand university research and education in integrated circuit technologies; and the formation of a government semiconductor council that should set "national strategic goals in electronics."

The task force includes defence and semiconductor industry leaders, senior Defence Department officials, defence experts and academics.

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UK likely to build N-plant

BY MAX WILKINSON, RESOURCES EDITOR, IN LONDON

THE BRITISH Government is likely to give the go-ahead for the construction for the first of five or six nuclear power stations following the receipt of recommendations from a government inquiry.

The decision to build the £1.5bn ($2.1bn) Sizewell B plant in Suffolk on the English eastern coast is seen as the most important proposed expansion of nuclear generation capacity in the industrialised world since the Chernobyl disaster last April.

The inquiry, conducted by Sir Frank Layfield, lasted 27 months and was the longest public inquiry ever undertaken in Britain. It was seen as an important test for the nuclear industry in Britain and was lobbied heavily by both sides of the nuclear debate.

Mr Peter Walker, the British Energy Secretary, made an outspoken speech in favour of nuclear power this summer. It was more supportive of the nuclear case than the comments of any other Western Government in the wake of the Soviet accident, although France and Japan have said that they intend to continue with their nuclear power programmes.

The Government is hoping that the 2,000 page report into Britain's first pressurised water reactor will have been fully digested by early February. The Prime Minister, Mrs Thatcher and Mr Peter Walker have made it clear that they would like to get the project under way before the general election, which has to be held before June 1988.

All the indications are that Sir Frank's main recommendations raise no serious objections. However, ministers and their advisers have not yet had time to study the details of his typescript, and a firm decision will not be taken until after the Christmas holiday.

The outcome may depend as much on political calculations as on the report. However, there is growing confidence in the electricity industry that the Government will agree to the building of the reactor.

The Central Electricity Generating Board is so confident that it is planning to devote a major part of a power plant exhibition next summer to its new plant.

Sir Frank's report has set out to answer four major questions about the proposed nuclear station: Is it safe? Is it economic? Is it necessary? Does it pose a threat to the local environment?

On the broader safety issues, the most important aspects in the British public's mind, it now seems clear that Sir Frank shows a green light. Any serious criticism of the safety of the design or of the Government's Nuclear Installations Inspectorate would have spelled instant death to the project.

On the economics, the report can be expected to prove fairly critical of the CEGB's claim that a PWR at Sizewell would be much cheaper than a coal fired station somewhere else. Since Sir Frank started his inquiry, coal prices have fallen steeply.

Nevertheless, there is no indication that his report goes so far as to say that a coal fired station would be cheaper than nuclear. The main message which ministers are likely to take from the report is that in a world of great uncertainties, nuclear energy may have significant economic advantages, and is unlikely to be much worse than fossil fuel stations.

CONTENTS

Liechtenstein Crown Prince collects a Texas-size subsidy

THE CROWN Prince of Liechtenstein is a partner in a Texas farm that is larger than his own principality - and collects king-size subsidies from the US Government, AP reports from Washington.

Subsidies of $2.2m, the largest support payment to any farm in Texas this year, went to Farms of Texas Co., a $70m farming partnership owned by Crown Prince Hans Adam of Liechtenstein and International Paper, headquartered in New York, according to the Agriculture Department.

Prince Hans Adam, 41, the heir apparent to the throne, owns half of the partnership, which has 22,000 acres in Brazoria County, near the coastal village of Alvin, the company headquarters; 17,000 acres east of Dallas in Hopkins County; and 9,500 acres near Texarkana.

Records detailing the holdings and government subsidies were made available by federal agriculture officials in Brazoria County.

The Prince's own country is smaller than his holdings in Brazoria county alone. The principality of Liechtenstein, in a valley between Switzerland and Austria, covers only 62 square miles.

Various properties accumulated by the royal family over the past 700 years are administered by the Prince of Liechtenstein Foundation, which has been acquiring American farmland.

International Paper is one of the world's largest natural resources companies, holding more than 6.3m acres of timberland primarily in the south-east US.

Department of Agriculture officials said the money paid to Farms of Texas easily surpassed payments to any other farm in the state in 1986.

"That's a good example of what most people will perceive as a real loophole – as money thet is not going to the family farmer," said Mr Larry Combest, a Republican representative of Texas and a member of the House Agriculture Committee.

The Government spent $25.6bn in fiscal 1986 on various agriculture programmes. In addition, provisions in last year's farm law, aimed at helping the family farm, also are resulting in large payments to major institutional producers.

The Farm Act was designed to restore the US to its former dominance as a world commodity supplier. To do that, prices were slashed to make US products more attractive to foreign buyers. Farmers are protected from the cuts through direct subsidies to make up lost income.

Republican Senator Phil Gramm of Texas says the farm subsidy system should be restructured to close loopholes.

France upset by lack of help from Bonn over interest rate

LACK of co-operation on interest-rate and currency issues has soured relations between monetary officials in France and West Germany, well-placed financial sources said yesterday, AP-DJ reports from Paris.

The sources, who requested anonymity, said the French Economics Ministry had become increasingly irked by the Bundesbank's recent tendency to let West German interest rates rise while its partners in the European Monetary System (EMS) were trying to reduce their interest rates to sustain economic activity and lower unemployment.

Noting that the recent move in West Germany's rate for repurchase agreements to 4.5 per cent from 4.35 per cent late in the summer has bolstered the already strong D-Mark, French sources argue that the Bundesbank's tolerance of higher interest rates is putting pressure on the EMS.

They further complain that the Bundesbank has allowed this pressure to mount by confining its currency market intervention to the dollar and refusing to buy European currencies.

French sources specifically hint thet they believe the West German position is largely responsible for recent pressure against the franc, which drove the D-Mark to FFr 3.29 early on Monday from FFr 3.27 on Friday.

Until Monday, the Bank of France had been intervening steadily to hold the mark at FFr 3.27 but sources indicated that this policy was causing a drain on France's currency reserves which prompted the Bank of France to stop the intervention on Monday and to defend the franc by raising its seven-day Treasury bill to 8.5 per cent from 7.5 per cent.

The interest rate increase worked to contain pressure on the franc, causing the D-Mark to dip to FFr 3.2851 at Monday's fixing and FFr 3.2805 in interbank trading early yesterday.

But French sources are apparently worried that defending the franc by interest-rate management could transform the EMS into a constraint on domestic economic growth unless West Germany co-operates more fully on the foreign-exchange front.

Soviet soldiers seek US visas

TWO SOVIET soldiers who fled to West Germany in a rare escape by members of Moscow's army in East Germany, have said they want to go to the US, according to officials in Bonn, AP reports from Bonn.

The two men, both aged 19, fled on foot across the heavily-guarded border to the northern city of Wolfenbuettel on Saturday morning, West Germany officials said on Monday. They told officials they wanted to join their Estonian relatives in the US.

The escape follows recent reports in an Estonian youth newspaper of protests among Estonians drafted for decontamination work at the Soviet reactor at Chernobyl.

While escapes of East German citizens have been increasing, it is very rare for Soviet soldiers to dash across the border and defect. The last such escape was in 1984.

Communist East German border troops did not open fire on the fleeing pair, said a statement from the West German border patrol command in Hanover. It said the escape apparently caught the border troops off guard.

They will stay in West Germany temporarily while waiting for entry visas to the US, the Interior Ministry said.

"We would give them asylum were if they wanted it, but they do not. They said they have relatives in the United States and want to go there," a ministry spokesman said.

Officials refused to name the men or say where they were staying.

Since the West German border police started records in 1969, only six other Soviet soldiers have escaped from East Germany, the spokesman said.

Elie Wiesel in Oslo to receive Nobel prize

AMERICAN author Elie Wiesel, a survivor of the Nazi holocaust who became a champion of human rights causes in the postwar era, arrived in Oslo yesterday to accept the 1986 Nobel Peace Prize, AP reports from Oslo.

Cited by the five-member Norwegian Nobel Committee as "a spiritual leader in an age of violence and hatred," Mr Wiesel is scheduled to receive the gold medal and diploma of the peace prize in ceremonies at Oslo university today.

The award ceremony, attended by King Olav V, members of the royal family, government ministers, diplomats, Mr Wiesel's immediate family and close friends, will be followed by a torchlight parade through the streets of Oslo and a banquet in the laureate's honour hosted by the Nobel committee.

Tomorrow, Mr Wiesel will receive a cheque for SKr 2m ($290,000) that goes with the peace prize before delivering his Nobel lecture, the traditional acceptance speech.

He told the independent Trondheim daily Adressavisen on Saturday that he planned to use the entire prize sum to set up a fund to finance conferences for the study of hatred and "what can be done to prevent it from spreading."

Sale of submarine plans to S Africa sparks inquiry call

BY DAVID MARSH IN BONN

AN OFFICIAL West German parliamentary inquiry into the illegal sale of submarine plans to South Africa looks likely to get underway before the general elections on January 25.

The opposition Social Democratic Party (SPD) yesterday joined the Greens ecology party in calling for an immediate inquiry into the affair, including the role of Mr Helmut Kohl, the Chancellor.

In a clear bid to maximise political embarrassment for Mr Kohl during the run-up to the elections, Mr Hans-Jochen Vogel, the leader of the SPD parliamentary grouping, said he hoped the first witnesses could be called before January 25.

Mr Kohl considered the question of selling submarines to South Africa after the question was first raised in 1984. The Government turned down the idea last year as being contrary to the country's export licensing rules as well as against the official United Nations ban on weapons sales to Pretoria.

However, blueprints for a U-209 type submarine built by state-controlled West German shipyard Howaldtswerke-Deutsche-Werft (HDW) were none the less passed to the South Africans in an affair which the Government claims came to light only in summer 1985.

Mr Kohl has been discomfited by a report that both he and Mr Franz Josef Strauss, the leader of the Bavarian Christian Social Union (CSU) party, gave encouragement to the proposal of selling the boats in 1984.

A report in the mass-circulation Bild newspaper—normally one of Mr Kohl's strongest supporters—last week said that Mr Waldemar Schreckenberger, state secretary in the Chancellor's office, had conveyed the impression that both Mr Kohl and Mr Strauss were "very interested" in the possibility of a submarine sale.

Mr Vogel said yesterday that the Chancellor was the "central figure" in the affair, but had refused to answer questions about it in parliament. Although the work of the inquiry will clearly not be finished before the elections, Mr Vogel said Mr Kohl and Mr Strauss, as well as Mr Gerhard Stoltenberg, the Finance Minister, and Mr Martin Bangemann, the Economics Minister, would all be summoned as witnesses.

Small businesses to be expanded in E Germany

BY LESLIE COLITT IN EAST BERLIN

SMALL PRIVATE businesses in East Germany which, unlike in the Soviet Union and most of Eastern Europe were never wholly eliminated, are to be greatly expanded in coming years.

Mr Erich Honecker, the East German leader, said this week that private craftsmen are to be given "greater support" in the future. East Germany's five-year plan, adopted last week, also stipulates that private allotment gardeners and collective farmers tilling their own household plots are to be "actively supported" along with other small-scale producers.

Last year 15,000 East Germans were permitted to set up shop as private bakers, shoemakers, opticians, locksmiths, greengrocers and restaurant owners.

The gap arose in the decades up to 1981 when East Germany closed down tens of thousands of private craftsmen for ideological reasons. By 1983 the privateers contributed only 2.3 per cent of turnover in the trades compared with 33 per cent in 1955.

Mr Werner Giesecke, a young baker who opened his own shop in East Berlin this year, said he has been freed from taxes for two years and gets a state bonus of up to DM80 (£28) per tonne of bread and rolls. He estimates that sales this year will be about DM100,000 and profits some DM 25,000.

Shortage of repairmen has led East Germans to offer many times the official hourly wage, as well as hard currency, to plumbers and car mechanics willing to shorten waiting times of months. As a result East Germany's 255,000 private craftsmen drive the best cars and can afford winter cruises to Cuba.

In Czechoslovakia small numbers of private roofers, plumbers and other repairmen are now permitted. But it is in agriculture where private initiative has made the greatest inroads.

Mr Karol Ceresna of the Czechoslovak Ministry of Agriculture said in a recent interview that collective farmers selling produce and meat from their own private plots had led to a higher standard of living in the countryside.

Greek protest strike called

BY ANDRIANA IERODIACONOU IN ATHENS

THE GENERAL Confederation of Greek Workers (GSEE), Greece's trades union congress, has decided to stage a 24-hour strike in late December in an effort to persuade the Socialist Government to relax its austerity incomes policy for 1987 for the low-paid.

The Government rejected the GSEE wage demand last week during a meeting to review the two-year economic stabilisation programme for 1986 and 1987, which the Socialists had introduced with the aim of reducing Greece's inflation rata and budget and trade deficits.

The meeting favoured extending tha Government's incomes policy for 1986, which featured a drastic watering down of the system of wage indexation introduced by the Socialists when they first came to power in 1981, as well as a freeze on all other pay increases, to next year.

The authorities are anxious not to jeopardise their target of a 10 per cent inflation rate by the end of 1987. The Finance Ministry's figures for the 1986 state budget also showed that pensions and salaries continued to exert an unwelcome pressure on public spending.

The GSEE decision this week coincided with a wave of strikes affecting municipal services and state schools, hospitals and electricity supplies. Municipal dustmen began a five-day strike last Monday while hospital personnel and teachers are to stay away from work today and tomorrow respectively.

EUROPEAN NEWS

Delors gets tough in row over EEC research funds

BY WILLIAM DAWKINS

EEC research ministers were yesterday locked in conflict with the European Commission as they struggled to agree on the Brussels authorities' plans for big increases in Community research spending.

Mr Jacques Delors, speaking at the European Parliament in Strasbourg, instructed his officials to withdraw the Ecu 7.735bn (£5.5bn) framework programme for joint EEC research entirely if West Germany, France and Britain continued to insist on pruning its budget back to Ecu 4bn or less.

The three biggest member states were, meanwhile, pitted at a meeting in Brussels yesterday against tha EEC Mediterranean countries, which mostly support the Commission's plans on the grounds that they could provide a valuable boost to their own technological development.

The programme, which runs from 1987 to 1991, covers areas such as advanced manufacturing telecommunications, and information technology. If Mr Delors' threat were carried out, the Race advanced telecommunications project would ru nout of casb a the completion of its development phase at the end of this year, while the Esprit information tecbnology project would have to stop taking on new work after December.

A number of smaller projects, covering areas such as technology for developing countries and medical research, would also run out of cash by the yesr-end, said a commission official.

Such action would be the most radical gesture the Commission has ever made in defence of its policies.

Mr Karl-Heinz Norjes, the Commissloner responsible for the sector, told ministers during the early stages of the debate that the Commission bad made enough concessions on a programme that had already been cut from Ecu 10.35bn to the present figure. Ha criticised them sbsrply for applying short-term budget worri seto a project that had long-term strategic significance.

Among the several compromise proposals being soncidered by national officials yasterday was a method put forward by Belgium, with the support of its two Benelux neighbours, of slimming the framework bndget to Ecu 6.6bn by adjusting the timing of the funding. It suggested that Ecu 1.1bn could be included in the current, underspent, research budget, while another Ecu 1.7bn could be deferred until after 1991.

Meanwhile, member-states refused yesterday to sanction a proposal to add Ecu 12.6m next year to thet Ecu 77m annual budget of the EEC's joint research centre in Italy. A highly critical independent report, presented to ministers yesterday, accused the centre of losing touch with its customers and hsving serious management shortcomings. Denmark, Spain and the UK argued that the funds should not be cleared until the centre had shown it was on the way to reform.

Martens plans early European summit

BY TIM DICKSON IN BRUSSELS

MR WILFRIED MARTENS, the Belgian Prime Minister, is understood to be planning a special "crisis" summit of EEC heads of state next March to sort out the Community's growing financial problems.

Mr Martens is known to feel that the budgetary imbalance and the closely related question of the spiralling costs of the Common Agricultural Policy will be the big issues during Belgium's six-month presidency of the EEC, which begins in January.

The next summit of Government leaders is not officially due until the end of June, but Mr Martens apparently feels that a top-level debate on the Community's finances is needed sooner. The provisional date being pencilled in is March 25, the day when EEC leaders are likely to be in Brussels anyway to celebrate the 30th anniversary of the signing of the Treaty of Rome.

Conveniently this will also be after Mr Jacques Delors, the President of the European Commission, has completed his forthcoming tour of national capitals and presented his specific proposals on the EEC's future funding. Mr Martens himself is understood to be planning a similar series of bilateral consultations.

Mr Delors spelt out the problem in dire terms during last weekend's summit in London. He warned that all Community institutions have, in effect, been "cooking the books" over the last 10 years and that there is now an immediate financing gap in 1987 of more than Ecu 4bn (£2.9bn) in a total budget of over Ecu 36bn.

The subject was kept off the formal agenda of the London summit by EEC leaders but the next few months are likely to see a big battle over related issues such as future financing, CAP reform and the renegotiation of Britain's budget "rebate."

The outline of Mr Delors' ideas has not yet become clear but he is considered unlikely to propose simply increasing the contributions of member states by raising the so called "VAT ceiling" from 1.4 to 1.6 per cent. A formula based on a certain percentage of GNP is one option which is being taken seriously in Brussels.

With just over three weeks of the British presidency to run, the Belgian Government is busy preparing for its six-month spell in the Community's "chair." As a small country with a relatively small administration but a clear *Communitaire* tradition to uphold, it is expected to work particularly closely with the European Commission.

Many of its priorities, however — continuing the 'rolling programme' for breaking down internal trade barriers, for example — are likely to be the same as Britain has pursued over the last few months.

Council of Europe nears pact on TV

By Raymond Snoddy in Vienna

MINISTERS from the 21 nations of the Council of Europe were last nigbt moving towards the creation of a legally binding convention on trans-frontier television.

The move, at the councll'e first meeting of mass-media ministers in Vienna, is seen by several European nations inclnding Britain, as an alternetive to the controversial European Commission draft directive on television.

The directive, which has been severely criticised, proposes qnotas on the proportion of EEC programmes which should he shown on television channels and on the amount of independent production.

If the Council of Europe formally decides to recommend a legally hinding convention, the EEC draft directive looks unlikely to be passed in its present form.

The convention which would have to be accepted by Conncil Foreign Ministers and ratified by individual governments, would provide a legal framework for satellite television throughout Europe and deal with problcms of copyright, and standards for both programmes and advertising.

Mr David Mellor, Home Office Minister responsible for broadcasting, said yesterday: "There is a widespread recognition that the Council of Enrope with its lighter hand and larger membership is mneb more likely to get regulations in the sensitive areas right than the European Community.

Mr Mellor put forward an amendment calling for the highest priority to be given to the rapid preparation of a legally hinding convention.

There was a growing consensus at the conference last night that such a recommendation will be approved today and a working party set np to prepare it. France, which had been thought to be against the convention, is now expected to support it.

The BBC, the IBA and the British Government are opposed to the Commission directive on the grounds that cultural products should not, as Mr Mellor said, be regulated like "sausage meat."

Mr Mellor said yesterday: "When EEC representatives speak of the range of cultural and other matters as being within EEC competence, we would have to beg to differ."

Dr Ivo Schwartz, one of the principal authors of the green paper on which the draft directive was based, said he did not expect the Council of Europe initiative to hava a negativa effect on the draft directive.

"We hava to creata an internal market in the 12-member nations before December 31, 1992. Although the Council of Europe may be going in the same direction, we have to go further," Dr Schwartz said.

The Council of Europe which was formed in 1949 is best known for its work in promoting buman rights. It works primarily through conventions which then enter the law of individual states when they are ratified.

Mubarak to ask for aid boost

By Tony Walker in Cairo

EGYPT'S ECONOMIC crisis is expected to rank high in discussions between President Hosni Mubarak and his French and German counterparts in Europe this week.

Egypt's president begins a visit to France today in which be is certain to press the case for additional assistance. Paris has already indicated it supports Egypt's application for an International Monetary Fund loan.

Mr Mubarak is also certain to seek stronger European commitments to a proposed Middle East peace conference. Arab moderates are pressing for such a conference in an effort to restore momentum to moribund peace efforts.

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UK analysis of terrorist threat wins broad support

BY STEPHANIE GRAY

EUROPEAN interior ministers, with the exception of the Greek minister, yesterday adopted an analysis of the terrorist threat to Europe based on a "specific and detailed" secret document provided by Britain. The UK holds the presidency of the EEC Council of Ministers until the end of the year.

Tha Greek delegation to tha third meeting of the so-called Trevi Group, chaired by Mr Douglas Hurd, the British Home Secretary, would make no comment on why it had rejected the document.

The group, set up in September in response to terrorist incidents in Paris, agreed that the secret analysis would be brought to the attention of EEC foreign ministers in order that a "more informed, effective and concerted reaction at political level" could be made to terrorist ativities.

Mr Hurd would not be drawn on whether terrorists states had been discussed at the meeting.

He denied that there had been any discussion with Mr Edwin Meese, the US Attorney General, in a briefing session on Monday about US arms sales to Iran.

He said the ministers were satisfied that US intelligence agencies would not be dealing with "back" channels and there had been no doubt about Washington's commitment to combat terrorism.

The ministers discussed the establishment of a possible common European visa system and e secure telecommunications link between member countries. Mr Hurd said that the EEC states would have installed e "hotline" system by the end of next month.

European police chiefs have started compiling a wanted list of terrorists and factions within the Community.

The Trevi Group is also charged with measures to combat drug trafficking and football hooliganism.

STRASBOURG SPEAKERS ATTACK EEC LEADERSHIP

Thatcher strikes back at MEPs

BY QUENTIN PEEL IN STRASBOURG

MRS MARGARET THATCHER, the British Prime Minister, got stuck in yesterday to a bruising encouoter with the European Parliament on the echievements of the British EEC presidency and last week's London summit.

She was accused by speaker after speaker of failing to provide leadership to the Community over the past five months, and holding an irrelevant summit of heads of government wblcb avoided the fundamental problems of reforming the Common Agricultural Policy and tackling the EEC budget crisis.

The 12-nation assembly in Strasbourg was treated to the extraordinary spectacle of the British Prime Minister coming under attack for not being tough enough in tackling farm spending, or resolute enough to deal with the real financial crisis looming.

Mrs Thatcher replied with e furious defence of her chairmanship, of British attitudes to the EEC, of sound economic policies underpinning any plan to tackle unemployment, and of e summit agenda focused on terrorism, drug-taking, cancer and Aids.

She also had to face a one-man demonstration by Mr Ian Paisley, the Democratie Unionist MEP from Ulster, jumping up and down in front of the television cameras to wave posters denouncing the Anglo-Irish agreement, before he was expelled from the chamber.

Mr Ian Paisley. makes his protest as Mrs Thatcher speaks to European MPs

The British Prime Minister managed to cross swords with all the political groups in the Parliament, except tha European Democratic group dominated by her own British Conservatives—and with Mr Jacqnes Delors, the president of the European Commission.

She treated them to a Westminster-style response: "I have been accused of irrelevance," she said. "The accusation mostly comes from those who show some tendency to suffer from the disease themselves."

Her fighting attitude left the MEPs in considerable uproar, with erstwhile allies threatening to withhold their votes from Sir Henry Plumb, the British Conservative group leader, wben be stands for presidency of the psrliament next month.

Mrs Thatcher's thesis was that the British presidency of the Community, wbich hegan last July, was concentrated on issues relevant to ordinary people—opening up the commcn market, promoting competition between air lines, and concentrating on the scourges cf terrorism and drug-trafficking in the summit.

Iran demands Saudis cut oil output

BY RICHARD JOHNS IN GENEVA

IRAN yesterday called for a reduction in the Organisation of Petroleum Exporting Countries' collective output and a lower rate by Saudi Arabia in particular as delegates convened here for the ministerial conference starting on Thursdey.

Before his departure from Tehran Mr Gholamreza Agazadeh, Iran's Minister of Oil, fired an opening salvo in wbat promises to be a tough confrontation with Saudi Arahia. It seems bound to be one inflamed by overproduction by tha Kingdom and other producers of the Gulf as well as an Iranian demand that Iraq should no longer he allowed to export as much as it is physically able to.

Mr Hisham Nazer, the new Saudi chief dalagate, appears to have been ieft with little or no room for manoeuvre st the conference by King Fahd who appears to be insistent that a fixed central price of $18 per barrel sbould he set without eny cut in the production of his own country or Opec as a wbole.

Asked if a reduction in overall Opec output would be agreed as a means to attain a price objective Mr Nazer said on his arrival: "We will find out very soon."

Criticism mounts over Palme murder hunt

By Kevin Done in Stockholm

THE Swedish Director of Public Prosecutions and the Chancellor of Justice have called for the replacement of Mr Hans Holmer, the Stockholm Police Chief, ss the leader of the investigation into the assassination of Mr Olof Palme, the Swedish Prime Minister.

The leadership of the murder hunt has faced a crescendo of criticism in recent days as frustration grows over the apparently fruitless investigation. Earlier reports of tensions between Mr Holmer and the prosecutors working on the case have been officially confirmed in a report from Mr Bengt Hamdahl, the Chancellor of Justice.

Mr Hamdahl has been openly critical of the organisation of the murder hunt, and this stance bas now been given outspoken support by Mr Magnns Sjoberg, the Director of Public Prosecutions.

Both these senior officials claim that Mr Holmer sbould resume his duties as chief of police in the Swedish capital and that the murder bunt should he led hy an experienced senior detective of lower rank in the police force.

"It is a practical question," said Mr Sjoberg. "It would ba simpler to deal with new situations if there was en additional level in the hierarchy to turn to, for example to resolve conflicts."

Last week the Chancellor of Justice published a report in which he claimed that on several occasions Mr Holmer bad failed to show "a necessary will to co-operate" with the previous chief prosecutor assigned to the Palme investigation, Mr K. G. Svensson.

Mr Svensson resigned from the case earlier this year

Talks save Philippine ceasefire

THE PHILIPPINE Government and negotiators for the country's comunist guerrillas yesterday put together a compromise to save the first national ceasefire in 17 years of fighting, writes Richard Gourlay in Manila.

In emergency talks 12 hours before the ceasefire was due to take effect today, government and National Democratic Front negotiators agreed how to interpret the agreement.

The talks were threatened last weekend when General Fidel Ramos, the armed forces chief of staff, ordered the military to disarm any New People's Army rebels found carrying firearms during the 60-day temporary ceasefire.

Mr Saturnino Ocampo of the NDF said: "Should any NPA be entering the city with firearms he would be liable for brench of the ceasefire agreement."

Mr Teofisto Guingona, a government negotiator, said the NPA should leave their guns outside "centres of population."

President Corazon Aquino's military adviser, General Jose Magno, said the military would be able to continue patrolling but not to seek out the NPA for armed confrontation in the so-called search and destroy missions.

The compromise alows both the government and the NDF to save face and push through with the ceasefire, which they both desire. It also ensures the military will be able to condnct policing patrols in so-called NPA "red zones" where they are infinential, if not in control.

Without such a guarantee the military would bave to accept that these are no-go areas under NPA control. The rebels have infiltrated or are influential in 19 per cent of the country's villages.

The negotiating panel also agreed the members of a committee that will monitor tha ceasefire nationally. It is led by Bishop Antonio Fortich, a priest who loudly criticised military abuses during the years of former President Ferdinand Marcos and is hased on the beavily NPA-infiltrated island of Negros.

Richard Gourlay on the left's strategy as the ceasefire begins

Filipino rebels keep a finger on the trigger

THE Filipino Communists bave brought their guerrilla war from the beart of the hills to Manila's television studios, appearing daily in talk shows and interviews since National Democratic Front (NDF) negotiators acting for the New People's Army signed a temporary ceasefire agreement on November 27.

Their media blitz so perplexed President Corazon Aquino's two negotiators last Friday that they gatecrashed a live television interview with the rebels in order to put forward their own position.

Mr Satur Ocampo and Mr Tony Zamel of the *NDF* bave been selling the idea thet the NDF and its military arm, the NPA, are the true guardians of the basic needs of ordinary Filipinos.

Their market is tha poor who became disaffected under former President Ferdinand Marcos and are still waiting for signs of any real improvements after nine months under Mrs Aquino.

The NDF's public relations exercise will continne long into the 60-day temporary ceasefire which begins officially today while the main issues blocking peace are discussed.

The leaders plan to keep the movement underground and committed to changing tha system of government by military force, if needs be. As a result, the left in the Philippines has won the democratic space in which to build its political base, while keeping one finger on the trigger.

Communist negotiators Antonio Zamel and Saturnino Ocampo at a press conference yesterday

Mrs Aquino's arrival on the Philippine scene forced the left's hand to some extent. Until mid-1985, the NPA was gaining militarily against the corrupt and inefficient armed forces.

But under Mrs Aquino that progress has halted, military analysts say. A month after she came to power she released over 500 political prisoners, including Mr Jose Marie Sison, founder-chairman of the Communist Party of the Philippines. She also immediately freed the press and started to dismantle the structures that had supported Mr Marcos for 20 years.

Faced with such a reasonable woman and genuine offers of a peaceful settlement to a dragging insurgency, the left had little option but to talk if it was not to appear churlish. NDF officials are also aware that few insurgency movements have prospered in liberal democracies such as those Mrs Aquino is trying to create.

The longer a ceasefire holds, the more the NPA and the Communist Party can claim they are the de facto government in those areas known as "red" zones. The military claims the NPA has already infiltrated or influences 19 per cent of tha country's villages.

"Tha idea is to let the people taste first the bliss of peace," said an aide of Mr Juan Ponce Enrile, former defence minister, who has constantly reminded whoever wanted to listen bow the Communists would use the new-found freedoms.

Combine an armed underground with a legal parliamentary struggle and they create a potent force. The new Partido NG Bayan Party set up, many believe, as a Communist front in August, provides exactly that vehicle in local elections expected next May.

For these reasons, the Communist movement has buried its differences over how to deal *with Mrs Aquino. They have* also buried their misgivings that her social class and upbringing in the bosom of a wealthy sugar family hold little promise for the kind of change they are looking for.

Tactically, however, it just doesn't pay to take on "Cory" at the moment and the various wings of the Communist Party have accepted this.

Predictions are easy to come by in Manila. The more informed variety suggest that neither side will want to be seen to torpedo the talks while tha agenda is still being worked out.

However, once the left presents its agenda, it may well have to deal with a military growing more and more impatient with NDF demands for the removal of US bases, participation in government and the integration of the NPA into the armed forces.

Pretoria expected to act against press again

By Anthony Robinson in Johannesburg

THE SOUTH African Government is expected to promulgate tighter restrictions on the media before the weekend following the failure of attempts to get the Newspaper Press Union to impose stricter self-censorship rules through the Media Council, the press watchdog.

At a meeting yesterday in Pretoria between the NPU, which represents the four big English and Afrikaans-language press groups, and a cabinet committee headed by Mr Chris Heunis, the Minister for Constitutional Development, the NPU said, the Media Councils constitution and codes of conduct could be amended only after 21 days.

The cabinet committee indicated that this was unacceptable to the government which wanted to introduce tighter controls immediately.

The NPU has already made a big concession to the government by accepting the government's description of South Africa as a "country facing a 'revolutionary onslaught.'" After a meeting between management and senior editors on Monday the NPU turned down government attempts to draw a distinction between the "official" NPU media and the so-called "alternative press" which is the main target of the government's ire.

The main targets of the clampdown will be left-wing publications such as New Nation, financed largely by the Roman Catholic Church, Work in Progress, supported largely by the unions, and the critical, independent Weekly Mail with sales of 17,000 and readership of around 55,000 which succeeded the defunct Rand Daily Mail 18 months ago.

● The Department of Home Affairs yesterday confirmed that it had decided not to renew the work permit of Mr Michael Parks, the Los Angeles Times correspondent in South Africa. He has been told to leave the country by December 31.

Another Arab shot in occupied areas

A 16-YEAR-OLD Palestinian was seriously wounded when he was shot in the head yesterday outside the Bureij camp in the Gaza Strip as clashes with Israeli troops continned throughout the occupied territires for the sixth day, reports Andrew Wbitley from Jerusalem.

During the day Israeli leaders issued contrasting statements on the continuing violence, which has claimed several Arab lives over the past week.

Deputy Prime Minister, said that when Israeli soldiers or innocent civilians were hurt, Israel should hit back with "an iron fist."

Mr Shimon Peres, the Foreign Minister and Labour leader, forecasting that the disturbances would soon calm down, said that the government'a two-pronged policy towards the region should remain that of ensuring security, while persisting with the peace process.

● Egypt yesterday denounced Israeli actions against Palestinian protesters, describing them as "violent" and "repressive," adds Tony Walker from Cairo.

A Foreign Ministry spokesman said yesterday that Egypt's ambassador in Israel had been instructed to convey Cairo's deep concern over the "escalation of violence against unarmed Palestinian Arab students and other citizens."

He said the ambassador was also instructed to tell Israel to put "an immediate end to these practices which constitute a flagrant violation of all international covenants and resolutions and conflict with ali efforts to create a suitable atmospbere for boosting the Middle East peace process."

The Foreign Ministry statement comes just a few months after a summit meeting in Alexandria between President Hosni Mubarak and Mr Shimon Peres, then Israel's Prime Minister. The two men agreed to work for peace in the Middla East

Israel's 'iron fist' opens ancient rift

Andrew Whitley *reports on tensions which ignited into West Bank violence*

WORSHIPPERS were just emerging from churches near Bethlehem's Manger Square, the traditional site of Jesus birth, last Sunday when a volley of shots rang out. Scattering in panic, they heard that Israeli troops had opened fire to disperse a crowd of Palestinian boys and girls chanting slogans.

No onue was hurt on this occasion. But over the past week, four Arabs have been killed and dozens have been wounded by similar "warning shots, as the Israeli forces attempt to quell the worst wave of disturbances in the occupied territories since their capture during tha 1967 Middle East war.

The troubles began in mid-November, in the most volatile cockpit of all, within the walled old city of Jerusalem, where four mutually antagonistic communities have been forced to live together over the centuries.

A Jewish theological student was stabbed to death one Saturday, the Jewish sabbath, by two Arab youths. The two were quickly captured and confessed, but tha incident ignited the victim's fellow religious zealots into a paroxysm of anti-Arab violence which persisted for days.

The next spark came last Thursday, at a traditional West Bank trouble spot, the Bir Zeit University campus, 25 miles north of Jerusalem. Tension had been building for days between soldiers manning road blocks and the students, known *supporters* of the *mainstream* Palestina Liberation Organisation.

Accounts of what took place at Bir Zeit that day differ. But the result was another burst of gunfire from the panicky Israeli soldiers, some of them probably reservists, causing the death of two students and injuries to several others. An internal inquiry into the incident was said to bave showed that the troops had acted "correctly."

News of the students' deaths ignited a spontaneous brushfire of demonstrations, strikes and school boycotts, from Khan Younis in tha Gaza Strip to Jenin in the north of the West Bank, which shows little sign of abating.

Fresh casualties bave been reported almost daily, largely on the Arab side. A dozen or so Israelis have also been hurt, mostly by stones hurled at cars and buses. But so far the disturbances in the Israeli-occupied tsrritories have been only local, and disjointed.

With the exception of the recent organised sbnt-downs of businesses and schools in East Jerusaelm and elsewbere, there has been little evidence of orcbestration behind the protests, despite contrary hints from the Israeli authorities.

Expressions of the Palestinians' pent-up frustrations resulting from nearly two decades of military occupation, the disturbances probably also stem — more worryingly — from their dawning realisation that since King Hussein of Jordan's breach with Mr Yasser Arafat, the PLO leader, earlier this year, they are more than ever on their own.

"They feel abendoned and lost, ecutely vulnerable to anything the Israelis want to do with them," said one western diplomat, a long-time observer of the Arab scene. He was commenting on the recent quiet co-operation between Israel and Jordan aimed at crushing tha influence of the PLO in the region and boosting pro-Hussein figures.

His observations coincided with a confused, but evidently beart-felt, appeal from the Moslem apiritual leader of Jerusaelm, Sheikh Sa'ad Eddin Alami — tha Mufti — for international protection for tha 350,000 Arabs living under Israeli rule in Jerusalem and for tha boly places.

Grave expressions of concern were heard from Israeli leaders over the Jerusalem tronbles. But, in the face of the past week'a clashes, officials have displayed a bland insouciance, belittling their importance and insisting that there is no need to change present tactics.

On one point Jews and Arabs agree. Under Mr Yitzhak Rabin, the Defence Minister directly responsibla for the territories, Israel'e long-standing "iron fist" policy of cowing into submission those who get out of line has been implemented with a previously unseen rigour.

At the first sniff of trouble at a Palestinian university or at one of the 28 UN-run refugee camps, the usual flashpoints, troops are rushed to the scene, ready to throw tear gas and fire into the air with live ammunition.

Detentions without trial and the expulsion to Jordan of suspected PLO activists have been stepped up, drivers stopped at frequent road blocks are routinely roughed-up, bus passengers are searcbed and insulted. Such harassments leave an obvious bitter taste in Palestinian mouths.

But more disturbing to the Israeli authorities is the radicalisation of a traditionally apolitical, tranquil town like Bethlchem, with its majority Christian Arab population and long-serving, pro-Jordanian mayor, Mr Elias Freij.

Barely 10 minutes drive from Jerusalem, behind the town'a bustling prosperity, e far-reaching shift in attitudes appears to he taking place, exemplified by last month'e clashes at its Vatican-financed university and by Sunday'e shooting. "Just let them wait and see what bappens, let them see," ground out Mrs Rima Hihi, a previously moderate Christian and an eye-witness of last Sunday'a trouble. Overnight, the ancient rift has once again been exposed.

Wright denies undermining security

By Chris Sherwell in Sydney

MR PETER WRIGHT, once tbe senior molehuntar in Britain's MI5 security service, yesterday said it was absolute rubbish that be was undermining national security and letting down his colleagues by trying to publish his memoirs.

Ha was speaking at a press conference in Sydney after be finished his testimony before the New South Wales supreme court. The court is hearing an application by the Britisb Government to prevent Heinemann Australie publishing his book *Spycatcher*.

Mr Norman Tebbit, the Conservative Party chairman, this week accused Mr Wrigbt of "ratting" on his MI5 colleagues and undermining the country's security. There have been other aimilar attacks.

Mr Wright repeated his charge that successive British governments "bave not been honest with the great British public."

He said be was ready to take anything out of his book that the Government wanted, bur the Government wanted to etop publication because of its embarrassment over the "pack of lies" it had told. "They've made a mess of it," be said.

Earlier Mr Wright faced cross-examination *in closed* court from Mr Theo Simos, QC, representing the British Government. At one point Mr Simos suggested that statements to parliament by Mrs Thatcher on Sir Roger Hollie, former MI5 chief, and Sir Anthony Blunt, the Soviet agent, were accurate. Mr Wright replied: "They were certainly not accurate. I was the senior case officer in both those cases."

This is believed to be the first public confirmation of Mr Wright's high-level role as "spycatcher" within MI5. On Monday it was revealed that he wae personal consultant to Sir Michael Hanley, a former MI5 director-general.

The British Government failed to respond as scheduled to an offer from Mr Wright's lawyer to narrow the defence's claim for access to secret UK documents relating to the case.

The offer, a pre-emptive move to render unnecesary the Government's appeal against a court order to produce the documents, was still under consideration last night. An answer is expected today.

If the Government accepts the proposal, the two sides will be required to make their final submissions early next week.

The court yesterday viewed video recordings of television interviews given by Mr Wright, broadcast in July 1984, and by Miss Cathy Massiter, a former MI5 officer, broadcast in March 1985.

Mr Wright's interview was surprising for the emount of information be disclosed which was not allowed to be said in open court in Sydney. Yet the British Government did not at the time seek to prevent the programme being aired.

Warning on delay in HK appointment

A GROUP of 13 Hong Kong legislative councillors yesterday warned the British Government that a delay in the appointment of a replacement for Sir Edward Youde, the colony'a Governor who died on Friday, could lead to public anxiety, writes Kevin Hamlin.

Sir Edward was cremated yesterday after a state funeral with full military bonours.

The councillors said in a letter to Mr Timothy Renton, the Britisb Foreign Office minister with special responsibilities for Hong Kong, that Sir Edward'e successor abould not appear to be the head of a lame-duck administration. He should be able to deal with any possible conflicts of interest with China, which will resume sovereignty over the territory after 1997, they said.

AMERICAN NEWS

Shearson officials subpoenaed

BY WILLIAM HALL IN NEW YORK

THE US Securities and Exchange Commission (SEC) has subpoenaed several leading officials of Shearson Lehman Brothers, the New York investment bank, as part of a wide-ranging investigation into possible insider trading surrounding the $482m (£339.4m) leveraged buy-out of Sheller-Globe Corporation earlier this year.

Shearson Lehman Brothers, which helped raise the high yield "junk bond" finance for the deal and took a 36.5 per cent stake in the private company, confirmed yesterday that Mr Peter Cohen, Shearson's chief executive, was one of several officials subpoenaed.

The investment bank said that it was just one of several parties involved in the Sheller-Globe buy-out which had been subpoenaed by the SEC. "We have no reason to believe that any Shearson Lehman Brothers employee violated restrictions concerning insider trading in the course of this transaction," said Shearson.

The SEC refused to comment on the revaluations that another New York investment bank was being asked for information concerning possible inside trading but stressed that issuing subpoenas to investment bankers did not imply wrongdoing.

In its last financial year the SEC investigated more than 1,000 possible violations of US securities laws. Most involved the SEC making informal requests for information. However, 119 formal orders of investigation were launched under which SEC officials have the power to subpoena witnesses.

While the SEC is at pains to play down the significance of subpoenaing particular individuals, the news that the SEC was seeking information from Shearson and General Felt Industries, Shearson's partner in the deal, has sent another shiver through Wall Street. Since November 14, when Mr Ivan Boesky agreed to pay $100m (£70.4m) in penalties for insider trading, Wall Street has been waiting to see whether another investment banker would be implicated.

Shearson Lehman Brothers said that the investigation into the Sheller-Globe deal, where the share price jumped before the buy-out was announced, had been under way since July and was not connected with the insider trading scandal involving Mr Boesky and Mr Dennis Levine, a former managing director at Drexel Burnham, who fed him with inside information on possible takeovers.

However, The New York Times noted yesterday that Mr Boesky was a major investor in Sheller-Globe and that Drexel Burnham, the New York investment bank which pioneered the "junk bond" market, helped co-manage the financing.

House hearings on insider trading begin today. **Roderick Oram** reports

SEC prepares the case for defence

WHEN Mr John Shad worked on Wall Street, one of his friends was a local agent of the Federal Bureau of Investigation. The agent detected a technique common to the two businesses one day when watching Mr Shad persuade a contact to spill the beans on a company he had just quit.

Stool-pigeons were their stock in trade, the agent suggested to Mr Shad, who is now the chairman of the Securities and Exchange Commission, Washington's Wall Street watchdog.

Mr Shad might have regretted telling the story last week at the annual meeting of the Securities Industry Association. It led to two inevitable questions: for all the sophisticated systems of the SEC and stock exchanges, did it not take an anonymous letter from Caracas, Venezuela, to alert authorities to the insider trading of Dennis Levine? Without Levine's evidence, would they have caught Ivan Boesky, lynchpin of the largest Wall Street insider trading scandal in years?

Taking his cue of "no comment" from Mr Richard Ketchum, the SEC's director of market regulation standing at the back of the press conference, Mr Shad stressed instead the strides the agency and exchanges had made in detecting suspicious trading patterns.

He is due to testify to a House subcommittee today on insider trading and the agency's handling of the Boesky case.

Key weapons in the SEC arsenal are the computerised transaction audit trails and market surveillance systems which the exchanges set up following discussions at an SIA meeting five years ago. These systems are essential to "the initial gearing up and hot pursuit" of investigations, but Mr Shad did allow earlier in his presentation that "some of the most important cases we've broken have come from informants."

The SIA believes that the effectiveness of these relatively new tools should be further tested before any more market regulation is introduced. One spin off of the audit trails has been easier and cheaper reconciliation of the 3 to 4 per cent of erroneous transactions made each day, Mr Shad said.

He reminded the audience that only five years ago some leading publications suggested little could be done about eradicating insider trading since it appeared to be woven into the fabric of Wall Street.

But a number of improvements ranging from the audit trails and new laws defining and penalising insider trading to co-operation agreements with other countries, particularly on bank secrecy, have given investors "more protection than they've ever had before."

The SEC's activities have more than matched the rapid growth of the markets. Since 1981, full disclosure filings have increased 40 per cent while the SEC's reviews of them rose 65 per cent; the number of broker-dealers has risen 57 per cent and the agency's oversight reviews of them has climbed 70 per cent; the population of investment advisers has grown 105 per cent but investigations of them have grown 150 per cent; trading volume is up 150 per cent and the number of transactions up 30 per cent but the SEC's investigations of them grew by 60 per cent.

Shad: securities industry "never healthier"

"This great bull market has not brought the speculative excess of the past," Mr Shad said. The securities industry "has never been healthier than it is today," so Congress should consider very carefully any proposals to tighten market regulations. Few would pass, he predicted, the most likely being a reduction to two days from 10 in the maximum period an investor can wait before declaring to the SEC a stake in a company.

For its part, the SEC is computerising its filing procedures to speed up the dissemination of information. Its present paper-based system can long delay market-sensitive information from companies and investors reaching a wider audience.

A pilot version of Edgar (Electronic Data Gathering, Analysis and Retrieval) has been running for two years. The agency will be asking Congress for a large budget increase to help it speed up implementation, beginning next year. The SEC wants to spend up to $20m on hardware for Edgar in the fiscal year beginning next October.

The SEC now gets about $110m, although that is more than recouped by the $200m a year in fees paid to the agency by companies and investors. A final request is still being formulated but Mr Shad indicated it could be for up to $45m, making it the largest increase in 50 years. Some securities lawyers say the extra resources for the SEC are long overdue.

Besides Edgar, the new money will allow the SEC to expand its staff of just under 2,000 for the first time in five years. Some would be deployed in enforcement, which already accounts for one third of employ-

Brazil and Argentina to set seal on collaboration

By Ivo Dawnay in Brasilia

THE DIPLOMATIC initiative to achieve substantially closer ties between Brazil and Argentina takes another step today when the countries' presidents sign 20 agreements ranging from customs tariff cuts to collaboration on arms production.

Although many of the accords were approved in principle during President Jose Sarney's visit to Buenos Aires in July, considerable flesh has been added for President Raul Alfonsin's four-day return trip.

Diplomats in both countries are reported to be convinced that progress in the 150-year-old dream of a Latin American common market is being made, despite a history of distrust between the states.

Many businessmen and industrialists appear to have shaken off much of their scepticism and launched a parallel series of encounters. But there remains considerable mistrust in some quarters, particularly in the farming community.

Prior to President Alfonsin's visit—his first to Brasilia—Mr Roberto Lavagna, the Argentine Industry and Commerce Minister, said that 12 of the customs protocols near completion should raise annual trade flows from $200m (£140.8m) to $2bn by 1990.

As many as 200 specific products are expected to be named in the list of capital goods exempt from duties, with many others attracting reduced levies.

The weight of the Argentine team, which includes almost all key figures in the Cabinet and a smattering of military personel, suggests that Mr Alfonsin has near-unanimous backing within his Government for the initiative.

Commentators in Brazil have remarked on the growing admiration that the countries' armed forces appear to be showing each other.

Today's signing session will be preceded by a lunch attended by President Julio Maria Sanguinetti of Uruguay. Mr Sanguinetti has called on his larger neighbours to include the Uruguayans in the integration process and the next meeting between the three may be held in Montevideo in March.

Among the protocols to be signed are mutual aid and collaboration agreements on defence, food supply, nuclear emergencies, steel, energy, biotechnology and industrial joint ventures.

Shultz takes steps to restore confidence in US policy

BY OUR FOREIGN STAFF

GEORGE SHULTZ, Secretary of State, yesterday began a diplomatic mission to restore confidence in America's foreign policy after charging that White House aides misled him over the arms-to-Iran scandal.

Mr Shultz met Sir Geoffrey Howe, Foreign Secretary, in London after telling reporters on his plane from Washington: "I have a rebuilding job to do and this is what I am going to try to do on this trip."

As he began his talks, the US embassy confirmed that American envoys from the Middle East assembled in London along with Richard Murphy, Assistant Secretary of State.

Israeli officials said the ambassadors had been called to London to confer with Mr Shultz, who yesterday revealed that the US ambassador to Beirut, John Kelly, was secretly involved in White House arms shipments to Iran.

Mr Shultz told a congressional committee yesterday that he had ordered Mr Kelly's return to Washington as soon as he heard of his activities. Aides told reporters Mr Shultz was furious that one of his envoys had been used behind his back by White House staff.

Mr Edwin Meese, US Attorney General, yesterday refused to answer questions about the actions or knowledge of individuals concerning the Iranian arms controversy, Fiona Thompson writes.

In London for talks with EEC interior ministers on terrorism, Mr Meese said it would not be appropriate to comment on any of the facts while "testimony and information as to exactly what occurred" was being obtained.

Asked whether he agreed with the statement by Mr George Shultz, US Secretary of State, that the diversion of profits from arms sales to Iran to fund the Nicaraguan contras was illegal, Mr Meese said the question would be answered by the legal process.

Asked if it was possible that President Reagan knew about the arms sales before they took place, Mr Meese said: "This is one of the things I'm sure will come out, particularly as the President has indicated his total co-operation with various inquiries in progress."

Mr Meese denied that US foreign policy was in disarray. "We have a strategic initiative some parts of which did not go as planned, and some things were done which were not part of the original strategy.

"The fact that President Reagan acted quickly, carefully and decisively to isolate the problem and see that it is properly handled means that he can go forward with the bulk of his foreign policy objectives."

Italy's state-owned Agusta helicopter and aerospace group may seek compensation from the US Government for business lost as a result of Washington's clandestine arms shipments to Iran.

Mr Raffaello Teti, chairman of Agusta, said in Milan yesterday that his company was investigating the US shipments to see if any helicopter parts were sent to Iran. Agusta has the exclusive licence for the sale to Iran of helicopters manufactured by US companies including Sikorsky, Bell, Boeing and Hughes.

In tones laced with sarcasm Mr Teti attacked the US-imposed embargo on the sale of military equipment to Iran. "For four years we have not exported to Iran because the prince (the US) told us not to sell. But the Americans may have used our territory to sell arms to Iran. We shall investigate the matter and possibly seek damages if we find that US helicopter parts for which Italy has the licence in the Iran market were shipped."

Ex-general named in Iran deal

BY NANCY DUNNE IN WASHINGTON

MR RICHARD SECORD, a retired US Air Force general, has amerged as a key figure in the cast of characters involved in the Iranian arms controversy obsessing Washington.

In his testimony before the House Foreign Affairs Committee on Monday, Mr George Shultz, the Secretary of State, became the first high-ranking government official to identify Mr Secord as a player in the unfolding drama. But press reports have for two months tracked his role in the secret operations to arm the Nicaraguan rebels.

Mr Shultz read a cable sent by Mr John Kelly, the US ambassador in Beirut, which said: "Between the dates of October 30 and November 4 1986, I had numerous conversations with Lt-Col Oliver North (the fired National Security Council aide) and Mr Richard Secord, relating to the hostage negotiations."

Officials in Switzerland say Mr Secord and Lt-Col North are under investigation by the US Justice Department into the Iran arms affair.

Some sources have identified Mr Secord as the key organiser of the effort to rearm the Contra rebels at a time when Congress cut off funding.

Telephone records have linked him, along with the White House, and US intelligence operations to the covert mission, in which Nicaraguan troops shot down a C123K cargo plane, flying weapons to a Contra camp. He has acknowledged only selling one small plane to the rebels.

Mr Secord, a 54-year-old West Point graduate, is now a part owner of a business which sells security systems abroad. He has a long history of involvement in the Middle East and reportedly accompanied Mr Robert McFarlane, the former National Security Adviser, on his now-famous secret mission to Iran earlier this year.

In the early 1960s, Mr Secord was assigned to a special military group in Iran. Later in the decade he was in Laos, attached to the Central Intelligence Agency, where he helped run a secret air war. From 1975-78 he was back in Iran heading an air force military assistance group.

In 1981, Mr Secord was the first military officer to be named Deputy Assistant Secretary of Defence for the Middle East. He lobbied for the sale of airborne warning and control system (Awacs) planes to Saudi Arabia, and became acquainted with Mr McFarlane and Lt-Col North.

Since his retirement in May 1983, he has been a Pentagon adviser on special operations warfare, and a business partner to Mr Alhert Hakim an Iranian.

WORLD TRADE NEWS

Taiwanese exporters greet US import pact

By Robert King in Taipei

Major Taiwanese exporters are heaving a strong sigh of relief over their government's agreement with the US finally to allow US beer, wine and tobacco products to be imported at reasonable prices.

Export industries, such as electronics, footwear and textiles, were seen as prime candidates for American retaliation under Section 301 of the US Trade Act if Taiwan had not finally reached agreement with US negotiators on imports of these products.

Section 301 grants the US President broad powers to penalise any trading partner believed to be engaging in unfair trade practices.

Criterion

Taiwan met that criterion in the ease of the alcohol and tobacco imports when it continued to insist on what the US felt were unreasonably high tariffs and advertising restrictions for products.

Manufacturers and buyers of Taiwan-made shoes, for instance, have been nervously wondering when penalties would come into force.

Exports of shoes which have been climbing rapidly since quotas were lifted in 1983, are expected to top $3.5bn (£2.5bn) this year from just over $2.2bn-worth in 1985. Such a growth rate would have made the industry a likely target for Section 301 penalties.

Pressure

The Government has met the US terms following pressure from the US whose trade deficit with Taiwan exceeded $12.4bn during the first 11 months of this year, from exporters unwilling to see their sales hit by US penalties, and from progressive officials dedicated to trade liberalisation.

Taiwan still has other hurdles to clear before its relations with its largest trading partners normalise, however, despite such moves as slow-but-steady reduction of tariffs and sporadic ending of bans on service-industry participation.

For instance, the 100th Congress due to open in Washington next month, is likely to be considering protectionist legislation that could prove extremely damaging to Taiwan's trade interests.

Peter Montagnon talks to the US Trade Representative in the aftermath of the Democrats' victory

Yeutter plays a waiting game on protectionism

THE QUESTION of whether US trade policy is going to become more protectionist in the wake of the Democrat victory in the recent Congressional elections has been worrying European businessmen since last month's vote.

But if they were looking for an answer during the first visit to London this week by Mr Clayton Yeutter, US Trade Representative, they may well have ended up in a state of nervous confusion.

For the reply that Mr Yeutter gives to this question is, in essence, a tantalising "wait-and-see." On the one hand, he said in an interview there is no deliberate intention to increase protectionism "at least as far as the Administration is concerned." On the other, the new Congress will not necessarily see things the same way.

"Obviously protectionism could be mandated by Congress if it can override the presidential veto. We can't say till that hypothesis is tested," Mr Yeutter said.

One risk, he said later in a speech to the Confederation of British Industry, is that it will be driven in that direction by the actions of other countries.

"President Reagan cannot hold back protectionism if there is a perception that other nations are closing their markets to US exports. And that perception is becoming so widespread that Congress is boiling over with frustration."

Mr Yeutter says he is under no illusion that trade matters have been put on the front burner since the elections or that the legislative environment is likely to be "more challenging" in 1987. Yet the hope is that by a combination of collaboration with the new Congress and continued tough action on unfair trading practices, the Reagan Administration can hold the line against out-and-out protectionism at home.

This will certainly involve some delicate political manoeuvring, but it may not be as difficult as many people expected when the election results were first made known.

Now, Mr Yeutter says, it is clear that there was a certain amount of over-reaction. The Democrats may be tilted towards protectionism, but next year is not yet an election year and the party contains a number of key figures who are opposed to protectionism. They include the influential Mr Lloyd Bentsen and Mr Dan Rostenkowski who will head up the Senate finance committee and the House ways and means committee in the new Congress.

Farm trade reform is so urgently needed that agriculture negotiations should be put on a "fast-track" in the new Uruguay round of multilateral trade negotiations, Mr Yeutter said yesterday, Peter Montagnon writes.

"Otherwise the US and EEC will spend additional billions of dollars on programmes of dubious merit, and we'll antagonise most of the world in the process," he told Confederation of British Industry.

The overall Uruguay round is expected to take at least four years, but agriculture should be dealt with more quickly because of "the chaos" in farm trade.

It was in this spirit that Mr James Baker, Treasury Secretary, announced last week that the Administration would work with Congress on a new Trade Bill, something that it had previously refused to do.

Mr Yeutter says the announcement should not be read as marking a fundamental change in approach. The basic decision to do this was taken back in the summer, but it could not be implemented because the Senate was preoccupied with tax reform and the House made trade into a campaign issue for the elections.

Yeutter: "US too tolerant in face of unfair trade practices"

The Reagan Administration wants a Trade Bill, not only because it will enhance its negotiating authority in the forthcoming Uruguay round of trade liberalisation talks under the Gatt (General Agreement on Tariffs and Trade). It will also help achieve a number of other key objectives, from increased funding for the Eximbank's "war chest" of aid funds to accompany export credit, to ratification of the International Coffee Agreement.

As it happens some of these objectives are needed more immediately than the Gatt talks authorisation. This covers tariff cutting authority and a so-called "fast-track authority" which would result in Congress simply voting on a Gatt agreement without having the right to write in amendments.

Theoretically the US could wait for four years, or however long the Gatt talks take, before obtaining such an authority from Congress. Long before that, however, Mr Yeutter expects a Trade Bill to have materialised.

For the time being a lot depends on preliminary hearings in both the new House and the Senate. Mr Yeutter says he does not know what these hearings will bring, "but I'd rather be optimistic that a constructive product would emerge."

The other plank of the present approach is to persevere with the crusade against unfair practice. Speaking in New York last week, Mr Yeutter said that in many foreign capitals the US now had a "Rambo" reputation as a result of this campaign.

In London this week he said that such a reputation had not been sought out of a desire for confrontation. Simply "in my judgment the US has been much too placid and tolerant in the face of unfair trade practices for too many years. That has now changed."

European officials gearing up for another session at the weekend on their dispute over US grain exports to Spain should be left in no doubt that he really means what he says.

Air India likely to order three Boeing-747s

By John Elliott in New Delhi

AIR INDIA is expected soon to order three Boeing 747-300 aircraft powered with General Electric engines to boost its existing fleet of Jumbo jets on long-distance international routes.

Two of the aircraft will be bought and the third is expected to be leased on soft terms, subject to final approval of the Air India board and the Indian Ministry of Civil Aviation.

Air India lost one 747-SP when it crashed in the Irish Sea last year and it is likely to purchase an identical type to replace it later.

The international airline placed an order for six Airbus A-310 aircraft last year, with an option for a further six. It chose them in preference to Boeing-767s to replace ageing 707s on its shorter routes such as the Middle East.

The Airbuses are now being delivered, and the Boeing-747s are needed to supplement them on longer routes to Europe and North America.

Japan surplus falls to $7.35bn

BY IAN RODGER IN TOKYO

JAPAN'S trade surplus slid to $7.35bn (£5.2bn) in November, 6 per cent lower than in October, as the volume of exports dropped by 7.7 per cent. Its trade surplus with the EEC, however, widened again.

The volume of car exports alone was down 17.8 per cent from the level in November 1985 to 540,000 units. Television set exports were down 38.5 per cent.

However, the negative impact of the high yen is still not showing up in the value figures. The value of customs cleared exports rose to $16.9bn, 9.1 per cent higher than in November 1985, while the value of imports dropped 10.8 per cent to $9.55bn. Crude oil imports plunged 53.3 per cent to $1.25bn.

Japan's widening trade surplus with the European Community will undoubtedly be raised by EEC officials at a ministerial meeting with Japan in Brussels tomorrow.

EEC officials have charged that Japanese industrialists have been diverting their exports from the US to Europe this year in the wake of the slump of the dollar.

Japan's exports to the EEC were up 22.6 per cent in November to $2.24bn. Despite a more rapid 46 per cent rise in Japan's imports from the EEC to $1.160bn, the country's $1.08bn surplus with the EEC was 4.5 per cent higher than in November 1985 and 9.6 per cent higher than last month.

In the first 11 months of 1986, Japan's surplus with Europe was $15.3bn, up 52.7 per cent. EEC officials also point out that the 49 per cent increase in Japanese imports from Europe so far this year has been substantially aided by $1.2bn-worth of purchases of non-monetary gold.

● AP-DJ adds from Tokyo: Japan's economic growth will be sluggish in fiscal 1987 beginning next April, due to the continuous deflationary impact of the yen's upturn, according to private-sector predictions released yesterday.

The Wako Research Institute of Economics Inc forecast that the Japanese economy is likely to grow at an inflation-adjusted pace of 2.7 per cent in fiscal 1987, following an estimated 2.2 per cent pace of growth in fiscal 1986.

Nippon Life Insurance Company was more pessimistic. It put the 1987 pace of growth at 2.3 per cent.

They are among a large number of private-sector groups predicting slow growth because of the persistent impact of the yen's upturn since late September last year.

The Economic Planning Agency (EPA) announced last week that the economy grew at an annual rate of 2.6 per cent in the July-September quarter, slowing from 3.8 per cent in the previous three months.

Call to reform farm policies

BY PETER MONTAGNON, WORLD TRADE EDITOR

A SENIOR Australian official yesterday urged the US, EEC and Japan to move early next year to reform their domestic farm policies as a major step towards eliminating the chronic over-supply problem in world agriculture.

Mr Geoff Miller, Australian Primary Industry Secretary, said in London that a political window for reform would open in the aftermath of the US Congressional elections and the forthcoming general elections in Germany, while the EEC will be tabling new farm proposals in the New Year.

"If this window of opportunit is seized, the probability of developing a sustained international accord to alleviate the agricultural crisis within a reasonable period will be much greater," he said.

But if advantage of the opportunities is not taken, the international price war in agriculture may continue until after the Presidential elections in the US and France which are expected in 1988.

"Reform of international agricultural policy is inevitable," Mr Miller said. "The only question is whether advantage can be taken of the immediate opportunity to begin the process in earnest or whether further escalation occurs first."

Introducing a new study of the world farm trade problem*, Mr Miller said that the US, EEC and Japan should progressively reduce their domestic support prices. This would help eliminate the chronic over-supply which besets world agriculture and raise world prices to more economic levels.

"The changes in (price) support levels don't need to be spectacular, but they do need to be sustained," he said. High support prices have created an incentive to produce that is too large.

Even a gradual reduction in support prices would require offsetting action by the governments concerned to dampen the impact on their domestic farming community.

This action might include lump sum payments to farmers, help with debt refinancing and the placing of existing stocks in quarantine so their release on to the market does not undermine any rise in world prices.

* *The Political Economy of International Agricultural Policy Reform, Department of Primary Industry, Canberra.*

China airline plans

China is considering plans from Boeing and Messerschmitt-Boelkow-Blohm jointly to design and build airliners, and will not repeat its current $600m (£425m) aircraft assembly deal with McDonnell Douglas Corp, an Aviation Ministry official said yesterday, Reuter reports from Shanghai.

EEC official hits at Tokyo over trade

By Carla Rapoport in Tokyo

ANOTHER BROADSIDE was fired at the Japanese yesterday by a senior EEC official who said that relations between Europe and Japan looked "pitiful."

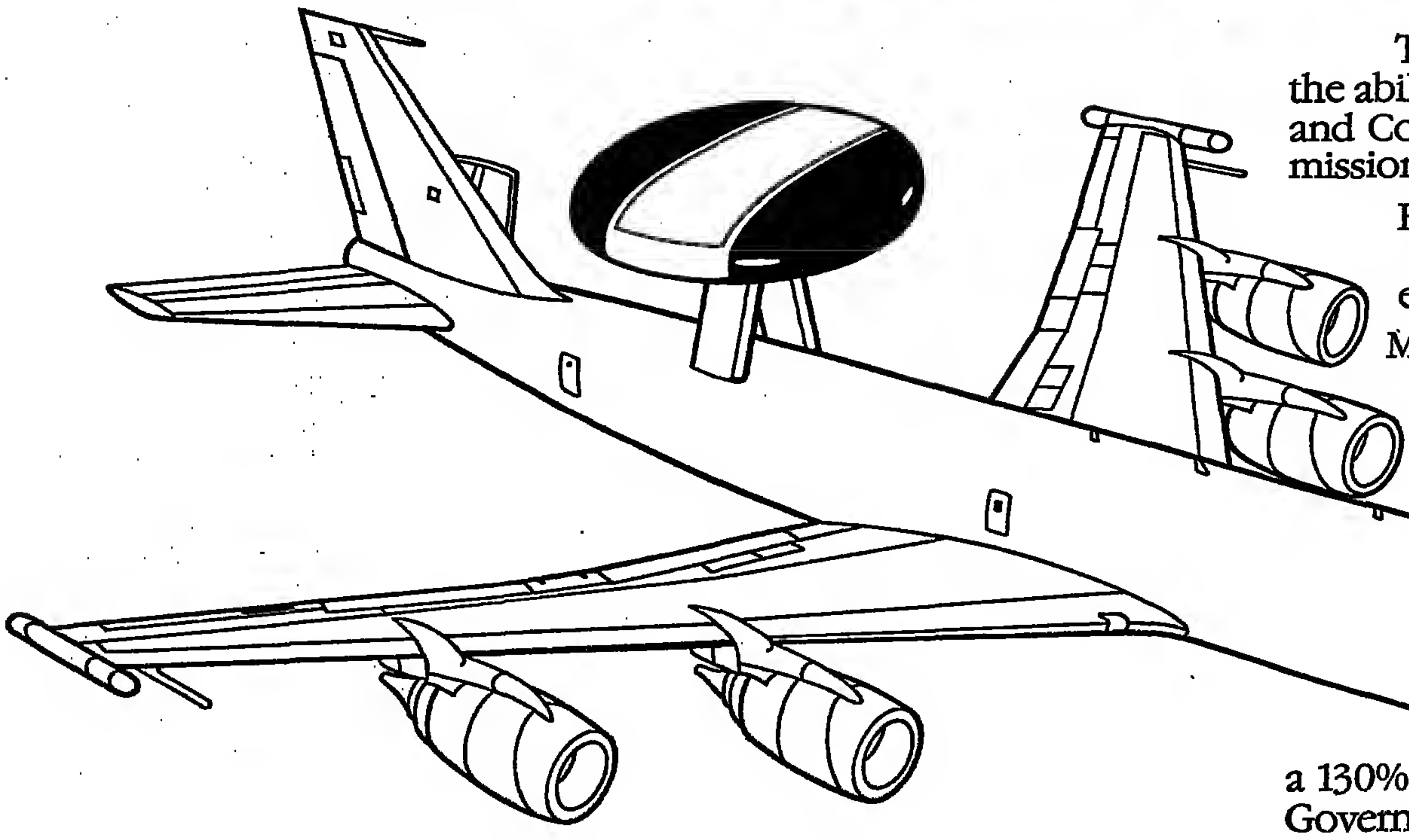
In a farewell briefing yesterday, Mr Laurens Jan Brinkhorst, departing head of the EEC delegation in Tokyo, said: "Japan has succeeded in uniting the Community" on the issue of its large trade imbalance with Europe.

"It looks pitiful that relations between two major powers in the world are symbolically bogged down over such an issue as wines and liquors," he said.

Japan's taxation system on spirits, according to the EEC, is discriminatory to foreign imports. Failure to solve this issue "seems to be symbolic of a very unsatisfactory relationship," Mr Brinkhorst added.

THE AIRBORNE EARLY WARNING DECISION COMES DOWN TO THIS:

WHAT'S BEST FOR BRITAIN?



There are no questions, no doubts, about the ability of the Boeing Airborne Warning and Control System (AWACS) to accomplish its mission.

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Boeing has made a 130% offset commitment to the British Government.

This means that for every 100 million pounds Britain spends with Boeing on AWACS, Boeing and its industry team will place 130 million pounds of work in the United Kingdom.

It means a new partnership; a unique opportunity for Britain in the continuing export markets for AWACS and in a wide range of related advanced technologies – computers and data processing, power systems, advanced radars, electronic warfare, communications, advanced aircraft and flight management systems – technologies that are in demand and that will create thousands of jobs throughout Britain.

This offset commitment has been welcomed by British industry across the country.

Boeing and its team have consistently exceeded their past offset commitments.

Already, Boeing and Westinghouse, the AWACS radar supplier, have partnership agreements with three of Britain's largest defence contractors – Plessey, Racal and Ferranti. These international partnerships will extend well beyond AWACS.

Here's exactly where we stand:

First, AWACS is a proven, technologically superior system.

Second, AWACS is the most cost-effective solution to meet the needs of the Royal Air Force for years to come.

Third, the Boeing team will honour its offset commitments.

AWACS is best for the defence of the United Kingdom. And the better deal for British jobs and industry.

BOEING

Poll gives Tories six point lead on Labour

BY PETER RIDDELL, POLITICAL EDITOR

THE TORIES have a 6 percentage point lead over the Labour Party – their largest lead for more than two years – according to e Harris Research Centre Poll for TV-am, the breakfast television channel.

The survey of 985 voters carried out last weekend puts the Tories at 41 per cent, compared with 35 per cent for Labour and 22 per cent for the Social Democratic Party/Liberal Alliance. This compares with 40 per cent for the Tories last month, 36 per cent for Labour and 21 per cent for the Alliance.

This lead is much larger than in other recent polls although it confirms the marked improvement in Conservative fortunes during the autumn. Indeed, some 54 per cent of the Harris sample expected the Tories to win the next general election, compared with 24 per cent which thought that Labour would win.

On the eve of the publication this morning of Labour's defence proposals the poll showed that 31 per cent said that defence policy was the main obstacle to voting Labour. The main obstacle to voting Tory, for 48 per cent, was that the party was not caring enough.

Mrs Thatcher: largest lead for over two years

Mrs Thatcher last night intensified her attack on the attitudes towards defence and national security of Mr Neil Kinnock, the Labour leader.

Interviewed on independent television news in Strasbourg after her speech to the European Parliament, she contrasted the current approach of Labour to these issues with the view which she had taken while in opposition before 1979.

Referring to the deportation of two US journalists in 1977, she said that the Conservative opposition had then voted in support of a Labour Home Secretary when his own left wing voted against him. She said that now "too many people on the other side are pitching their tent with the left wing instead of what I call the old orthodox Labour Party, which is totally different from the Labour Party we know today."

Without referring to Mr Kinnock by name, Mrs Thatcher said that she had "never been able to stand people who played party politics with deeper things such as defence and internal security." She said there were certain levels of responsibility whether you are in government or opposition "which you expect people never to play party politics with – we did not."

Mr Norman Tebbit, Conservative Party chairman, claimed in New York last night that Labour's plans for "one-sided disarmament" would wreck Nato.

Collier accused of illegal deals from ex-partner's home

BY CLIVE WOLMAN

MR GEOFFREY COLLIER, the former Morgan Grenfell joint securities chief, is alleged to have committed three insider dealing offences by making an early Monday morning transatlantic telephone call from the London home of his ex-partner at Morgan, Mr John Holmes.

Mr Holmes, who has ramained managing director of the securities operations, lives in a large house near Wimbledon Park in south-west London. Mr Collier is believed to have stayed with Mr Holmes overnight because the two had been working together on Sunday.

Mr Holmes said last night that he had no knowledge of any possible overseas telephone calls made by Mr Collier.

The details of the charges that the Department of Trade and Industry have brought against Mr Collier emerged yesterday from Wimbledon magistrates court, where Mr Collier is due to appear on February 23. For the last week, the DTI has tried to keep the details of the charges against Mr Collier confidential.

The three charges against Mr Collier allege that early on Monday, November 3, he contacted Mr Michael Cassell, a stockbroker working for Vickers Da Costa Securities in Los Angeles, with inside information about the engineering company AE. At 9 am on the same day, a takeover bid for AE at a higher price was launched by Mr Robert Maxwell's Hollis Group, which was being advised by Morgan Grenfell.

One charge in the summons is that Mr Collier counselled or procured Mr Cassell to deal in AE shares on the London Stock Exchange. A second is that he passed to him the inside information, knowing or believing that he would make use of the information for dealing in AE.

The third charge is that Mr Collier dealt in the shares of AE, a company with which he was connected, on the basis of unpublished price sensitive information. The offences are alleged to have taken place at 123 Home Park Road, Mr Holmes's family residence.

No action has yet been taken against Mr Cassell by the US Securities and Exchange Commission (SEC) although the SEC has received details of the case from the DTI.

As a result of another DTI inquiry which has involved Morgan Grenfell, Guinness, the brewing and spirits company, yesterday appointed the merchant bank Lazard Brothers as its adviser, at least for the duration of the inquiry into Guinness, which was launched nine days ago.

Morgan Grenfell, Guinness's adviser during the takeover battle for Distillers which is the focus of the DTI investigation, will continue as joint advisers.

Tension between Guinness and Morgan Grenfell has been simmering since the summer. Then, the failure of the Guinness board to appoint Bank of Scotland governor Sir Thomas Risk as chairman of Guinness led to e public row which split loyalties of the Morgan team in London and Scotland.

Meanwhile the DTI investigation has focused on share dealings carried out by Drexel Burnham Lambert, the US securities house which has been subpoenaed by the SEC as part of its investigations into insider dealing on Wall Street.

Drexel was acting as an agent in purchasing shares in Guinness as the takeover battle for Distillers reached its climax in April.

Move to gag civil servants attacked

By Peter Riddell

THE Government faces intensified all-party backbench pressure to drop its proposed instruction to civil servants not to answer questions about their conduct from House of Commons select committees.

The suggested government restriction on the accountability of civil servants was put forward in the wake of the Westland affair and the decision to stop five key civil servants from giving evidence to the defence committee. The issue has also arisen over the trade and industry committee's inquiry into the tin crisis.

There has already been some angry backbench reaction in view of fears over undermining the role of select committees inquiring into the actions of the executive, and the Government has had to promise that the instruction will not be formally issued until the relevant committees have reported.

The Treasury and civil service committee yesterday produced a report attacking the instruction. The MPs said the order "would be open to misinterpretation and might inhibit civil servants from giving select committees information in the way they have always done."

Mr Terence Higgins, the Conservative chairman of the committee, said the aim was to get the Government "to recognise the strength of the argument."

The liaison committee, of which Mr Higgins is also chairman and which consists of the chairmen of all select committees, will now consider the practical implications in relation to Parliament and hopes to report before Christmas.

There will then be discussions with Mr John Biffen, the leader of the Commons. Mr Higgins said he was optimistic about resolving the problem although other MPs, including Tories, thought the issue would have to be brought back to the floor of the Commons to challenge the Government.

The report argues that select committees regularly take evidence from officials concerning their actions on the basis of ministerial policy.

The Treasury committee says: "It would be quite wrong and entirely unacceptable for any restrictions to be placed on the giving of such evidence, and we are sure that, on reflection, the Government have no intention of doing any such thing.

"It is obviously highly desirable that the Government should make this clear."

First report from the Treasury and Civil Service Committee, Session 1986-87, Ministers and Civil Servants, House of Commons Paper 62, Price £2.40.

Amphibious strike force pledge

BY DAVID BUCHAN AND IVOR OWEN

THE GOVERNMENT has taken its first firm step towards maintaining a UK capability in amphibious warfare over the long term with an announcement yesterday of feasibility studies to extend the life of or replace the Royal Navy's two main assault ships HMS Fearless and Intrepid.

Mr George Younger, the UK Defence Secretary, told the House of Commons that Swan Hunter, the Tyneside shipyard, had been given a contract for the studies. Both ships were built more than 20 years ago.

Mr Younger said: "We shall be addressing the means of providing helicopter lift, including the concept of an aviation support ship." With the sale of HMS Hermes to India earlier this year, the UK navy lost its only helicopter assault ship.

Ever since the landing in San Carlos Bay led to victory in the Falklands in 1982, Mrs Margaret Thatcher, the Prime Minister, and her ministers have been vocal in their belief in amphibious operations. But, until yesterday, the Government had persistently ducked the costly issue of how Britain's amphibious warfare capability was to be maintained with the sale of Hermes and the ageing of Fearless and Intrepid.

Nato relies on Britain and the Netherlands to reinforce Norway in event of war, and UK and Dutch marines depend on Royal Navy amphibious shipping to get them there.

Loss puts Austin Rover deficit over £1bn

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

AUSTIN ROVER'S accumulated deficit moved above £1bn last year following a 153 per cent increase in the state-owned company's net loss, from £22.5m to £56.9m.

The accounts, now filed, also show that in his last full year as chairman Mr Harold Musgrove was awarded a 16.5 per cent pay rise, from £71,389 to £83,146.

Mr Musgrove, who joined the group as an apprentice 40 years ago, retired at the age of 56 in September following the appointment of Mr Graham Day as chairman of the parent Rover Group and the reorganisation which followed.

Last year Austin Rover's turnover rose by 19 per cent from £1.849bn to £2.2bn. The operating loss was reduced from £23.7m to £9.5m.

However, after an increase in net interest payments from £20.6m to £34.9m, the loss before tax was about the same as in 1984 – £44.4m against £44.3m.

The net result was badly affected by a drop in tax returned, down from £20.6m to £200,000, and a sharp increase in extraordinary items, up from £2.7m to £11.7m.

Austin Rover made a provision of £14.4m for a restructuring programme involving the closure of the Radford power unit plant and toolrooms at Castle Bromwich, Llanelli and Dunstable. The provision was reduced by £2.7m of credits in respect of the 1984 restructuring programme.

Redundancy payments, treated separately, totalled £6.1m last year compared with £2.8m.

Austin Rover's accumulated deficit, £960.5m at the end of 1984, increased to £1.026bn in December last year.

The directors point out 1985 was a good year for vehicle sales and production. Worldwide sales increased by 14 per cent to 479,500, and production at 479,000 was the best since 1979.

The value of Austin Rover's sales overseas rose by 11.7 per cent, from £545.6 to £609.4m.

Austin Rover's financial situation deteriorated again in the first half of this year. According to Rover's six-month report, ARG Holdings, which also includes the profitable Gaydon Technology subsidiary, recorded an operating loss of £60.9m in the period compared with a £0.5m operating profit in the first half of 1985.

Banks named for Eurotunnel share offer

By Hazel Duffy

EUROTUNNEL, the Anglo-French Channel tunnel consortium, has appointed Robert Fleming, British merchant bankers, and French bankers Banque Indosuez, to handle the £750m international share offer which is scheduled for next summer.

In Britain, the offer will be organised by Robert Fleming and Morgan Grenfell, and in France by Banque Indosuez, Banque Nationale de Paris and Crédit Lyonnais. Salomon Brothers will act as a special adviser on the international issue. Other special advisers will be appointed as necessary for national and regional markets.

The appointments reflect the concern of the consortium that a clear order of seniority be established for the crucial offering, which will precede the planned quotation on the London and Paris stock exchanges. The equal status of the advisers in the period before the October placing was believed to have hindered decision-making.

The provisional date for the offering is next July, which will be confirmed on completion of the signing.

PRINCE CHARLES SEEKS SUPPORT FOR SMALL ENTERPRISES

Business leaders urged to help run community projects

BY IAN HAMILTON FAZEY

THE PRINCE of Wales yesterday called on business leaders for increased support for community projects that would help economic regeneration and the growth of an enterprise culture.

He also announced a pilot project for 1987 designed to regenerate a whole town through a determined co-operative effort of the private sector, local and central government, and voluntary agencies. Halifax, in the north of England, has been chosen for the experiment, which will be repeated throughout Britain if it works.

Speaking in his role as president of Business in the Community (BIC), Prince Charles also told the organisation's annual meeting in Newcastle-upon-Tyne: "I suggest that we place special emphasis on marketing and design and how these concepts can be developed in small businesses."

He also foreshadowed and supported the formation of the "half-per-cent club," which will be launched by Mrs Margaret Thatcher, the Prime Minister, next week. Under this, companies will undertake to give half of one per cent of pre-tax profits to community projects, such as support for enterprise agencies.

But he added: "It is equally important that companies expand their secondment as much as possible. This is the linchpin of the whole of corporate community involvement."

Although he did not mention the problem directly, this was a reference to a faltering in the supply of secondees from large companies to help run enterprise agencies and other job-creation projects.

BIC will next year be pushing for more secondees in a joint campaign with the Action Resource Centre, a body concerned with finding private-sector resources for the community. Prince Charles yesterday made sure that the commercial and industrial leaders at the meeting were aware that the drive had his full support.

He also told the meeting: "I intend in the next year to go on seeking support for the whole small enterprise culture. We will continue to seek ways with commerce and industry to encourage entrepreneurship."

Corporate policies could also help, such as sourcing supplies locally and providing equity support for small businesses. Training, recruitment and the location of plant were important too in securing "full support for those who want to control their own lives and contribute to the economy." Prince Charles said that the "one-town" project will draw on the experience of places such as Pittsburgh and Baltimore in the US in regenerating themselves through involvement of the whole community.

Halifax had been chosen because the experiment had a high chance of success there.

Move to gag civil servants attacked

By Peter Riddell

THE Government faces ... all-party backbench ... drop its proposed ... servants not to ... about their conduct ... Commons select committees

SMALL ENTERPRISE

...rged to hel... ...jects

APPOINTMENTS

Managing directors at Lex Service

LEX SERVICE has appointed Mr Peter Turnbull and Mr Tony Whitton as managing directors from January 1. Mr Turnbull, who was appointed to the Lex board in November 1981, will have particular responsibility for Lex's automotive distribution and leasing activities. He was appointed financial controller of Lex Service in 1976 and became chief financial officer in 1979. In September 1983 he was appointed as chief executive, Volvo Concessionaires. Mr Whitton, who was also appointed to the Lex board in November 1981, will have particular responsibility for Lex's electronic component distribution activities. He has been responsible for Lex's electronics interests since 1981 and became president of Lex Electronics in August 1983. Appointed to the board from January 1 is Mr Alan Costin, chief financial officer, Lex Service. Mr Gil Black will be relinquishing his executive responsibilities for the leasing activities to Mr Turnbull in the New Year and will be retiring from the Lex board at the end of May 1987. He will, however, remain a director of the leasing businesses.

★

Due to unexpected hospitalisation, Mr Allan Sutcliffe will be unable to assume the post of managing director, finance, at BRITISH GAS during December as forecast in the prospectus. Mr W. G. Jewers has agreed to continue as managing director, finance, for an additional few weeks until Mr Sutcliffe becomes available.

★

Mr John Wolff, a director of Rudolf Wolff & Co, has been elected chairman of the committee of the LONDON METAL EXCHANGE and Mr Clement Danin, managing director of Charles Davis (Metal Brokers), has been elected vice chairman.

★

Cadbury Schweppes and the Coca-Cola Company are forming a jointly-owned company to handle the bottling, canning and distribution of the soft drinks products of the Coca-Cola Company and Schweppes in Great Britain. To be launched on January 5, the board of COCA-COLA SCHWEPPES BEVERAGES will be: Mr D. R. Williams (managing director); Mr R. A. Clift (finance); Mr G. R. Dale (employee relations); Mr J. P. Gunn (organisation and resourcing); Mr J. S. Morrison (dispensed engineering services); Mr S. A. Sherrod (business systems); Mr J. M. Sunderland (commercial); and Mr P. N. White (operations).

★

Mr Ronald Stevens, formerly managing director of Garrard The Crown Jewellers, has been appointed a director of H. PEROVETZ. He will be the only director outside the Perovetz family, and will be managing director of Sheffco, which was formed to market The Silver Solution.

★

MASSTOR SYSTEMS CORPORATION has appointed Mr James E. Williams, senior vice president and chief financial officer. Mr Williams is replacing Mr Richard P. Beck, executive vice president, chief financial officer and director who is resigning these positions to pursue other business interests.

★

Mr A. F. George, deputy secretary, becomes group secretary of GKN on January 1 on the retirement of Mr M. W. A. Chester. In April Mr George was appointed deputy secretary and group secretary designate, retaining his legal and administrative responsibilities.

★

INTERNATIONAL SYSTEMS and APPLICATIONS (ISA) has appointed the following divisional managing directors: Mr Andrew Heap has been appointed managing director of the end user division and Mr Rod McMillan managing director of the wholesale division.

★

On January 1 Mr Stephen Denyer, Mr Alistair Asher, Mr Michael Duncan, Mr Peter Watson, Mr Mark Welling, Mr Bryan Wells and Mr Brian Harrison will be joining the partnership of ALLEN & OVERY.

★

Mr Tony Baker and Mr Paul Hopkins have been appointed regional directors for facilities management by DATA NETWORKS. Mr Baker was with Data Logic for five years as an account manager. Mr Hopkins was managing director of React Management Service from 1981 to 1986 following five years as a sales executive with ICL.

★

WICKES has appointed Mr David McGill as deputy managing director of its UK retailing subsidiary, Wickes Building Supplies. He was trading director and later corporate development director of Littlewoods Organisation.

★

CIVIC TRUST has appointed Mr Martin Bradshaw a director in succession to Mr Michael Middleton who will retire at the end of the year.

★

Mr Rus Westmacott, recently of Barclays De Zoete Wedd, has joined the BENCHMARK GROUP as company secretary and will be in overall charge of the group's operations. He will become a director of the principal operating subsidiaries.

UK NEWS

More co-operation urged to support British exporters

BY FRANK GRAY

BRITAIN'S commercial missions abroad and the home-based British Overseas Trade Board need to increase their co-operation to give more cohesive support to the country's exporters, a report by the National Audit Office said yesterday.

Tha report welcomed recent improvements in arrangements between the Foreign and Commonwealth Office, which is responsible for government diplomatic posts, and the Department of Trade and Industry, which supervises the BOTB. But it noted that the Foreign Office's export support activities differed from diplomatic work because its commercial work was under the direction of the BOTB – in effect, an outside agency.

This latter point made it essential, especially given restraints on resources, that the BOTB furnish formal terms of reference to the Foreign Office. The Foreign Office would then be in a better position to develop and promote clearly defined operational objectives for export promotion work.

Tha report, prepared by Sir Gordon Downey, the NAO auditor general and comptroller, found that Foreign Office resources devoted to commercial work had been maintained at roughly proportionate levels over the past decade While the Foreign Office considered this level reasonable, it was the NAO's view that this may not be satisfactory to meet present and prospective export support needs.

It cited an occasion in the US of the FCO's inability to respond quickly to an upsurge of demand for British goods in the New York and Florida regions.

The NAO also called on both the Department of Trade and the Foreign Office to think again about their policy of not ranking export markets, which both bodies believe would be impractical and misleading.

The report found that the BOTB stressed the importance of helping small and medium-sized companies boost British exports but that Foreign Office missions abroad tended to take a more broad-brush approach and, hence, larger companies benefited more than smaller ones from Foreign Office support.

The cost of promoting British exports by Foreign Office missions was £52.5m in 1985-86, compared with £49m in 1984-85, and involved the work of 1,150 British and locally engaged employees, the report said.

**National Audit Office Report by the Comptroller and Auditor General; Foreign and Commonwealth Office: Commercial work; House of Commons Paper 63, HMSO, 22 pages, £3.80.*

Unipart profits slide 43.6% after job cuts

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

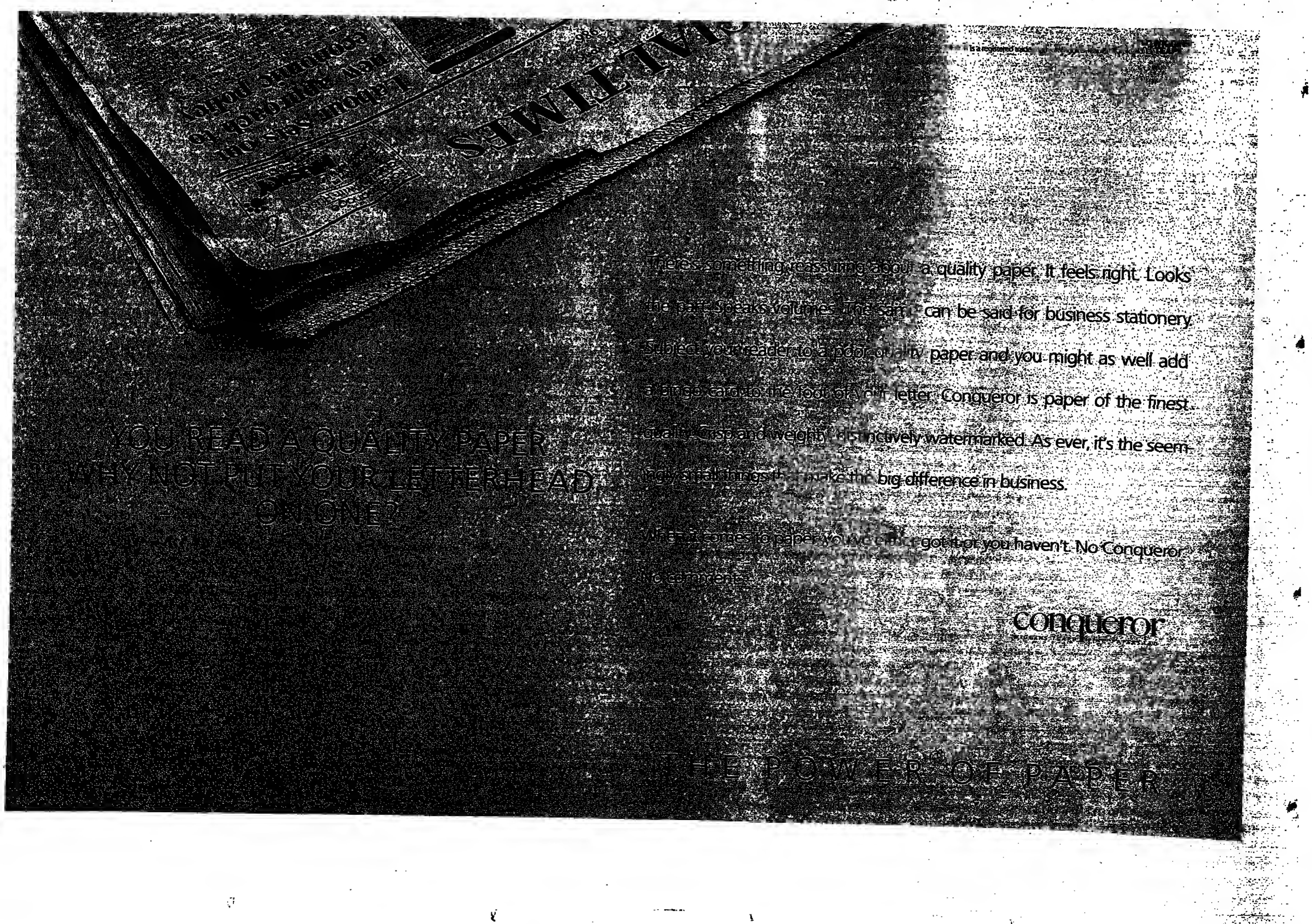
UNIPART, the vehicle spare parts company about to be sold by the state-owned Rover Group, last year provided £4.7m to cover a redundancy programme caused by Land Rover withdrawing its business.

This exceptional item contributed to a 43.6 per cent drop in Unipart's 1985 taxable profit from £8.7m to £4.9m. The results were also adversely affected by continuing losses from Edmunds Walker, the distribution organisation acquired for £15m in August 1984.

Unipart's annual report shows that during 1985 a voluntary redundancy programme was started to reduce the workforce. This was because Land Rover, a company within the Rover Group, transferred its parts operations to its own subsidiary.

The Unipart workforce was reduced by nearly 15 per cent, from 5,043 to 4,308, but the main impact was in component production because three companies were transferred to Austin Rover, the cars business, last year.

Ironically, Edmunds Walker was bought to make Unipart more attractive for sale back to the private sector. The scale of its impact on Unipart can partly be gauged from the fact that in 1983 Unipart's pretax profit was £17m.



Whitehall's computer spending forecast to rise by 20% a year

BY TERRY DODSWORTH

THE UK Government's expenditure oo computers and software services is expected to increase by around 20 per cent a year over the oext few years as Whitehall speeds up the introduction of new techniques for managing its paperwork.

Spending in this area reached £264m last year, jumping from only around £150m in the 1983-84 fiscal year, according to Mr Paul Freeman, director of the Central Computer and Telecommunications Agency (CCTA), a body which helps Whitehall adapt io new technologies.

A particularly large jump in government spending on information technology is also expected. This technology will be used by consultants and private-sector staff who are being brought in to manage the introduction of new systems because of a shortage of trained Civil Service staff in this area.

The Government is expected to spend 50 per cent more in this category against the £50m committed in the 1985-86 fiscal year, and expenditure in each of the next few years after that will rise by between 30 per cent and 40 per cent.

A further "significant" increase in spending is predicted in turnkey projects, where specialists are hired to introduce a complete system. This approach is again being dictated by shortages of skilled staff.

The other main area of rapid increase in expenditure is data telecommunications, where the CCTA is expecting a rise of 30 per cent a year for some time to come although only on a small base of about £20m at present.

The rise in the Government's budget on information technology, which reached a total of £1.4bn last year including staff costs, is roughly keeping Whitehall in line with the use of computer systems in industry, says Mr Freeman.

The CCTA is helping to facilitate the adoption of information technology in Whitehall by encouraging the adoption of open systems which allow computers to communicate easily with each other.

Chemicals 'losing strength in exports'

By Tony Jackson

THE BRITISH chemical industry risks losing its position in international markets, says a report from the National Economic Development Office (NEDO).

The industry contributed a net £2.5bn to the UK balance of payments last year, the report says. But its share of international exports has been static while it has beeo losing market share in the UK.

The average growth of the industry has been below that of its leading competitors, and last year it had a trade deficit of £400m with the EEC. "Contineotal Europe should be a vital market for the UK industry in view of its size and relatively easy access," says the report.

Although exports rose from 35 per cent of sales in 1979 to 46 per cent last year, this is only in line with the Continental competition, the report says. The share of OECD exports has stayed steady at between 9 per cent and 10 per cent compared with up to 20 per cent for West Germany and 18 per cent for the US.

Meanwhile, there has been fierce competition in the home market, with import penetration rising by 40 per cent in the past five years. "Importers have taken up all the growth in the home market since 1980, and UK manufacturers' home sales have remained essentially static," says the report.

The report concludes that the industry's contribution to the UK economy will only be maintained if companies can strengthen and develop their trade performance. It calls on the Government to assist several areas, including ensuring competitive feedstock costs and providing investment incentives, and also in providing a more stable exchange rate.

Maintaining the Balance, price £3.00 incl p & p, from NEDO Books, Millbank Tower, Millbank, London SW1P 4GX.

Building society reserve ratios 'under threat'

BY HUGO DIXON

INTENSE competition in the savings and mortgage markets is putting so much pressure on building societies' profitability that reserve ratios could fall next year, a report by Quilter Goodison, the stockbroker, says.

It this were to happen, it would severely limit the ability of societies to diversify out of these traditional markets as allowed under the 1986 Building Societies Act, which comes into force in January.

The Building Societies Commission has proposed rules on capital adequacy, which will require most societies to increase reserves as a proportion of assets before they are able to diversify into riskier but more profitable businesses. If reserve ratios fall, societies may find they are trapped in low-risk low-profit markets.

The report said that societies could no longer rely oo cheap retail deposits. The average margin on mortgage business had halved in recent months as societies abandoned the premiums they used to charge for endowment and large mortgages. Costs were also growing rapidly, as a result of investments in new technology and branch office refurbishments.

Call for bankers to mobilise talent within management

BY DAVID LASCELLES, BANKING CORRESPONDENT

FT CONFERENCE

World banking

NOW that the Big Bang deregulation has altered the UK financial markets, it is time for financial institutions to have their own big bangs and shake up their internal managements, according to Mr Herve de Carmoy, chief executive of Midland Bank International.

Opening the 12th FT world banking conference, Mr de Carmoy, called for a radical new approach.

"The basic problem of the banking industry today is not the technological challenge but its approach to people. Banks have within themselves a wealth of talent willing to regard change as an opportunity rather than a problem.

This talent needs to be even better mobilised. The question is not how profitable and how successful we are today, but how much more profitable and successful we want to become tomorrow."

Banks should consider "demystifying technology" and "emphasise the human factor" to improve initiative throughout their organisations.

Mr Brian Quinn, head of banking supervision at the Bank of England, said the changes in financial markets and the globalisation of banking called for greater convergence in prudential standards between different countries. He believed progress would be made following a recent meeting of officials from 30 countries in Amsterdam.

But other issues needed to be addressed, including large exposures by banks to individual borrowers, and monitoring the banks' growing involvement in securities trading.

Mr Quinn also urged banks not to be carried away by the pressures of competition. In particular, he warned the UK banks to temper their lending to personal borrowers who were in danger of being overstretched.

Addressing issues of technology, Mr Gerald Loev, vice president of Booz-Allen and Hamilton, the New York consultancy firm, said there was a danger that expert systems were now being oversold, and he urged bankers to pay more attention to linking and aligning systems with the different forces in their business strategies.

Mr Jorge Forteza, of Booz-Allen's Paris office, analysed strategies of banks in the global capital markets and said that, if banks understood what was hitting them, they would be able to manage change while preserving vital personal relationships with their customers.

Mr Charles Goldfinger, director of the Society of Worldwide Interbank Financial Telecommunications (Swift), warned that the major changes in international banking were still to come as it moved towards "geofinance," round-the-world, round-the-clock finance. The process of deregulation was still in its early stages and banks had yet to confront the challenge of use of technology as a source of new products and services.

Banking had still to shake itself down to the level of other major world industries such as cars, oil and computers which were dominated by a few multinational giants.

Mr James Larkin, executive vice president of financial services at American Express, said that every financial service institution must have its own strategy for dealing with today's challenges.

American Express's experience had yielded a lesson that was relevant to all financial services providers: "Know the customer."

"Through deregulation and technology there are increasingly few limits to what we can do," he said. "But there are very real limits to what we should do. And it's the customer who calls the shots."

Summing up the themes of the first day of the three-day conference, Mr John Harris, president Europe, Booz-Allen & Hamilton International, said institutions must choose the correct markets and customers and be aware of their cost position while paying due attention to managing people and their organisations.

Lord Grimond, the former Liberal leader, said many City of London practices were working against the interests of consumers and the community at large, including the unbridled takeover wave, insider dealing and the absence of good investment advice.

"There is nothing in the Financial Services Act which will stop the wide boys stripping Aunt Agatha of her savings," he said. "Now it's a matter of *caveat emptor*."

TECHNOLOGY

UK suppliers have begun to tailor mobile communications packages to the needs of particular companies and industrial sectors. David Thomas concludes this series by examining the spread of services within British business and the impact new frequencies will have on operators of private mobile radio.

Who gets what: Patterns of use begin to change

JACQUES BLANCHE, senior vice-president of Alcatel, the French telecommunications giant, has spent many hours on the frustrating business of setting up France's cellular phone system, only now getting off the ground. Yet he already has a vision of a revolutionary type of mobile communications which could cut across cellular.

Mr Blanche foresees a time when communications mobility will rest, not in a phone carried or driven around, but in a card to be found in everyone's pocket. Every phone, private as well as public, will have a slot into which these cards can be fitted.

When a salesman visits a customer, he will drop his card into the slot of a convenient phone: if he makes a call, the cost will be charged to his account; and, more impressively, if anyone dials his personal number, the call will automatically be routed to the phone where his card is resting.

Mr Michel Gaultier, another Frenchman, has a different vision of communications on the move. He works for AT&E, a Californian company developing a wristwatch-pager which it is calling Receptor.

The Receptor, to be launched in the US at the start of 1988 is novel for two main reasons. It aims to be truly international: a managing director in London will be able to page his marketing director as he sits in a bar in Tokyo. And AT&E hopes it will be cheap enough to make the crucial breakthrough into the domestic market: parents will be able to page their children when a meal is ready.

These two visions—the first probably a long way from realisation, the second only a year away—show that little in the world of mobile communications can be taken for granted. Extrapolating what exists now, even to the end of the decade, is risky, because new technologies and services will be on the agenda by then.

But this raises the question of where this is all heading. Are businessmen to be faced with a stream of new communications technologies, as baffling as the latest development in personal computers? Will the ultimate point of improved communications—doing business more efficiently—be lost in a flood of gadgets?

John Carrington, chief executive of British Telecom Mobile Communications, thinks not. He says mobile communications companies are now in the business of selling packages and services, not just gadgets.

"Mobile communications has moved out of the Rolls Royce and is now something which sales forces have," he says.

BT Mobile Communications has recently started offering packages of services tailored to the needs of particular companies or industry segments.

So, for example, if an executive is out of his car, calls to his cellular phone are automatically diverted to Voicebank, BT's voice messaging service, and he is then bleeped on his pager that a message is awaiting him.

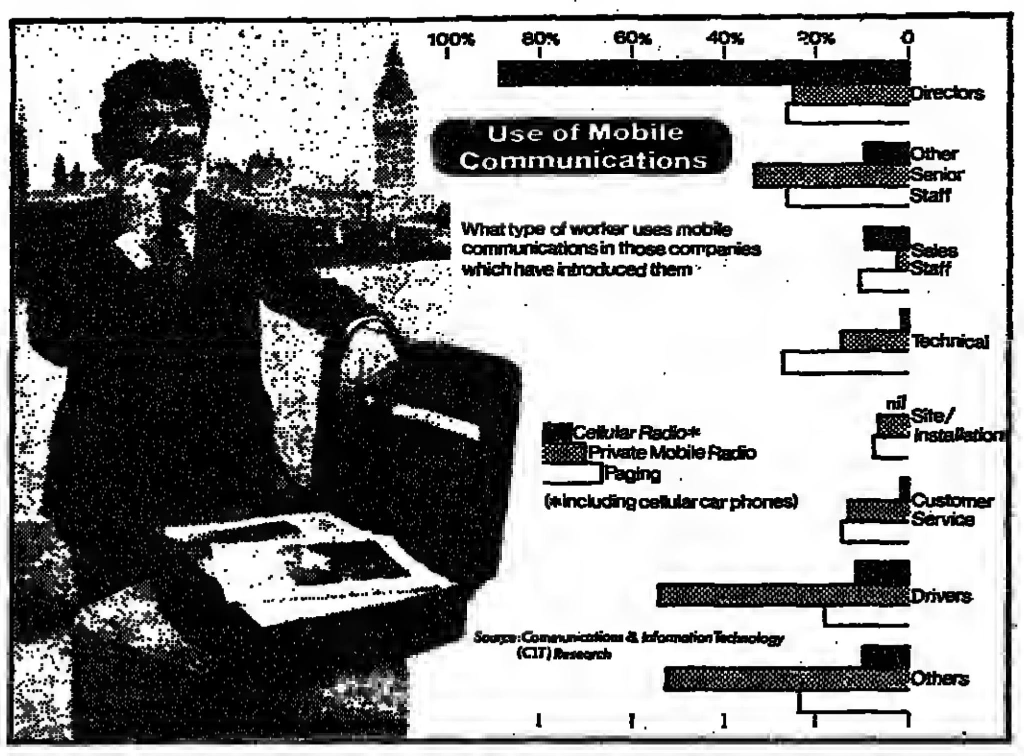
A common theme among mobile communications companies is that value added services—back-up services to the basic networks—will be among their most profitable growth areas in the future.

This more sophisticated approach to service provision may be helping to change the profile of mobile communications users.

Until recently, there was a *fairly rigid hierarchy based on* cost, as a survey by Communications and Information Technology Research carried out last year confirmed: directors and senior staff got cellular phones; workers *like drivers got private* mobile radio; and pagers were spreed more evenly in an organisation.

While this hierarchy is still evident, it may be softening. BT Mobile Communications says that of the 20 per cent of its *paging customers* who drop out each year, about 8 per cent do so to trade up to cellular.

Cellular use is spreading downwards *from* self-employed businessmen and board members to the middle ranks, helped by a growth in large orders from big companies.



Most companies introducing cellular phones more widely are confident it will increase their business efficiency, though there is little evidence on this other than the anecdotes of communications managers and individual users.

A survey carried out for BT Radiopaging by Audience Selection earlier this year concluded that British executives spend 7.7 hours a week moving about on business. The obvious moral: they would be of more use to the company if they could be contacted during this downtime.

Microgen, a computer microfiche bureau in Radlett, Hertfordshire, has tried to pin down the benefits of giving car phones to its 28-strong sales force.

Mark Woodhouse, its marketing manager, says salesmen are able to make up to 15 per cent more calls; can stay out of the office longer; and can be contacted by head office during the 30 per cent of time they spend travelling. Moreover, using carphones fits in with the company's high tech image.

However, no one seems to have thought much about whether the extra calls are strictly necessary or whether workers are under more strain by being continuously exposed to the phone. Mobile phone enthusiasts say strain is less, *because people en route to* meetings can phone ahead when stuck in traffic.

Many organisations are not put off by the cost of the newer types of mobile communications. The fact that using a cellular phone in the UK or the Nordic countries is about 10 times the cost of using a tone-only regional pager, on one estimate, has not dampened the growth of cellular.

John Carrington, of BT Mobile Communications, says the price of the cheapest cellular phones has tumbled *from* about £1,250 when the service was first introduced last year to about £750 now. He reckons that in *future* prices *will not* fall so sharply.

But there is probably still room for strong growth before the *market is saturated in* the UK. There are less than 1m people using any kind of mobile communication in the UK at present: Mr Carrington estimates that about a fifth of the working population—some 5m people—are potential customers.

● Previous articles in this series:

November 26—*Car phones and European efforts to set standards for a digital cellular network.*

December 3—*Data transmission and radio paging.*

How the market in Europe will grow

	Installed base: 000s			
	1986	1988	1990	1995
Wide area paging	1,035	1,530	2,075	3,265
Private mobile radio	3,120	3,415	3,725	4,490
Cellular (and radiophone)	605	1,085	1,670	3,310

Source: CIT Research.

Band 111: A shot in the arm for a sleepy backwater

SECURICOR, UK security services group and long-time mobile communications user, is working on the sort of device *normally seen only in spy films.*

By beaming radio signals from different transmitters it will be able to pinpoint the position of its company vehicles to within 50 metres. This information will be registered at set periods, ranging from every two seconds to every five minutes, both in the cab of a vehicle and back at the vehicle's base.

This location device, which Securicor intends to start marketing commercially in the middle of next year, has been developed in one of the forgotten corners of mobile communications—private mobile radio (PMR).

In use for more than 30 years, PMR is the communications system which guides vehicles of the police, utilities like the gas and electricity, taxi drivers and motoring organisations. It differs from cellular radio in that it operates in closed user-groups — for example, taxi drivers talking to base — and the messages are short, often instructions.

There are about 400,000 licensed PMR units in the UK at present, but growth has been held back *by a shortage* of frequencies. A Government decision earlier this year to free a wedge of spectrum, *known as Band III and previously* used for black-and-white television, will change this position.

GEC Telecommunications and a *consortium* led by Pye Telecommunications have been given two national Band III licences, each with 100 channels allocated to them, and there are 10 new regional licence-holders too. Most of these are due to start services next year.

Besides introducing competition into the sleepy PMR backwater, Band III will offer a number of advantages over traditional PMR:

● Relatively cheap national coverage of good quality should be available. Users will not have to lay on their own base station equipment, as large PMR users do at present.

● Quality will be better, especially for users too small to have their own dedicated systems. These suffer most from today's congested frequencies.

● There will probably be some, limited, interconnection with the public phone network and also, through private exchanges, with phones in users' offices.

● Extra services such as data (print-outs of new delivery points, for example) will become available.

Band III customers will probably not differ much from the traditional users of PMR. Pat Keller, managing director of GEC Communications says he expects his new network to be *used by people like freight* operators, field forces, maintenance workers and domestic appliance companies.

But the more universal coverage and the better quality should lead to a greater take-up. One estimate sees PMR units almost doubling to 750,000 by the end of this decade.

What is unclear as yet is whether a more effective PMR service will take customers away from the booming cellular networks. Band III operators will almost certainly pitch their prices to undercut cellular.

BT Mobile Communications, which has a 20 per cent stake in National Radiofone, licence holder in five regions, says it will probably charge a monthly service fee of £15-£20 and a call fee of about 10p a unit. The equipment per vehicle will probably work out at about £500. These charges are below cellular, but above the limited type of PMR currently available for smaller organisations.

Mobile communications companies, which often offer cellular, PMR and paging, usually insist that these three types of services are complementary, each suitable for different sorts of workers and uses. But, companies may prefer a cheap, effective, national PMR system, with strictly controlled links to the public phone network, to cellular for its workers, other than those typically getting cellular phones now—directors and senior salesmen.

EUROPEAN MESSAGE COMES OVER IN A BIG WAY

USE OF all forms of mobile communications in Western Europe is growing by 40 per cent a year, a much faster growth rate than in almost any other sector of the communications industry, according to a report* published yesterday.

The report, by Communications and Information Technology (CIT) Research, a London - based communications company, looks in detail at European demand for cellular phones, wide-area paging and private mobile radio.

There are 800,000 cellular phone users in Europe, and the figure is likely to grow by about 30 per cent a year for the rest of the decade, the report says. Within 10 years, cellular users should have reached 3.3m.

The report expects the 1m wide-area paging users to double by 1990. Private mobile radio will show slower growth—about 5 per cent a year—because with over 3m PMRs already in use, there is less scope for expansion.

These rapid growth rates will feed through into strong demand in the equipment market, the report suggests. It forecasts that this year equipment sales should top the $1bn mark, up 50 per cent on last year's $670m.

Adding in spending on infrastructure and service revenues, the total value of the European mobile communications market in 1986 will be nearer $3bn.

The report expects spending on equipment to have risen to an annual $1.75bn by 1990, with total business at about $4bn.

However, it cautions about over-crowding: "There may now be too many organisations with the resources and desire to enter the field of network and equipment provision." The US Bell telephone operating companies, American Telephone & Telegraph and some large Japanese groups may try to enter or boost their presence in a market which already has more than a dozen strong contenders in Europe.

*** Mobile Communications in Western Europe. CIT Research. 1 Harewood Place, Hanover Square, London W1R 9HA. £3,450.**

MANAGEMENT

Middle East recession

Al Mulla puts its faith in diversification

Michael Field reports on an unusual Kuwaiti group

WHEN faced with recession most Middle Eastern businesses try to hibernate. They have no idea that it is possible to invest and make profits — if they find the right opportunity — even when government spending has been drastically cut by the collapse of oil prices. The larger trading companies fire staff at random, sell their stock at a discount and wait for times to improve; the smaller contractors quietly go out of business.

A Kuwaiti firm that bas worked against this trend is the Al Muile Group, a typically diversified Arabian family concern which does the biggest part of its business importing cars — it has the agencies for Mitsubishi and Chrysler.

It also sells Kato cranes, Fuso trucks, various types of industrial machinery, domestic appliances and packaged foods. Contracting divisions build air-conditioning, plumbing and electrical systems and run cleaning and maintenance services for hospitals, airports and other large public buildings.

The group as a whole this year is expected to have a turnover of about $140m, roughly the same as in 1984 and 1985. It is one of the half dozen biggest merchant houses in Kuwait and one of the two or three best maneged.

It bas a very long serving senior management and is highly unuaual in the area in baving a board with a majority of non-Kuweiti professionals wbo can, and do, outvote the family.

The directors believe the reason wby they have maintained their performance in the severe Gulf recession, which bas seen some companies' turnovers drop by 80 per cent, is that they had a triel run in 1979-80.

This was when Chrysler was in trouble. Its cars had a reputation in Kuwait for being unreliable and, worse still, potential customers feared that the company might go bankrupt. Sales of the cars fell by more than half, from 5,000 units a year—and they have continued to decline since.

Reacting with conventional logic, the company's managers decided that they had to diversify, and so they went into municipal cleaning, in association with Pritcbard Services, and security, with Securicor, both British companies.

In one sense their decision was not exceptional because most Middle Eastern companies are already very diversified. What was unuaual waa that the new ventures were carefully selected aa businesses which were likely to expand and belp the group out of a difficult situation, wbereas most other companiea have diversified without any planning at all.

As a manager of one of the higger Gulf trading groups, itself known as a well-run company, once remarked, "in the early 1970s we went into a lot of businesses just because somebody walked through the door and suggested them. To some extent we took things to stop somebody else getting them first."

Affable

No sooner had the company got over the Chrysler crisis than Kuwait'a unofficial stock market, the Souk al Manakh, crashed in September 1982. Seeing thia and the weakening oil market, Anwar Mulla, the Group'a affable deputy chairman, says the board started looking at economies.

"We esteblisbed a committee to see where saving could be made," he remarked recently. "And we have since monitored developments in each part of our market very carefully. Each of our departments prepares its own budget for the year ahead and updetes it quarterly . . We have kept rednciug our orders of most items and we heve not been ceught with unsaleeble stocks."

The group's maneging director, Apkar Hovaguimian, e Lebanese Armenian, adds that Mitsubishi is much better than other Japanese car companies in not force-feeding its distributors —pushing them into expanding, or not reducing, their orders when their markets are shrinking.

Few other Arabian trading groups study their markets in any depth or produce budgets of any sort. One of the other big Kuwaiti car importers still has unsold models from 1982 and 1983, and another company was caught by the recession with 70 beavy cranes in its inventory.

In effect the Al Mulla Group has come up with four lines of action for dealing with tbe recession:

● It has continned to diversify. Today the company reckons that it handles most of the big air-conditioning projects in Kuwait and its air-conditioning division's maintenance department is projecting an increase in turnover of 70 per cent next year.

At the same time its cleaning and maintenance operations bave won contracts for six bospitals in Kuwait and 11 in Iraq, as well as for Baghdad airport.

The result of these successes is that the percentage of the group's turnover contributed by activities other than car salea bas risen from 20 per cent to 45 per cent during the 1980s.

● The company has reduced its staff from 3,000 to about 2,500, wbicb bas aaved it more than 1.5m a year in salaries.

Three departments bave been merged and two bave been closed altogetber. These were the legal department and the medical department, which was deemed to be unnecessary because there is a free public health service in Kuwait.

Computer costs have been reduced by the company switcbing from e big main frame to a system of distributed processing, in wbich a series of "mini-computers" in the various divisions are linked to a "super-mini" in head office. Because it is extremely expensive for a company to maintain a large full-time computer staff in Knwait, programming bas been sub-contracted to Sri Lanka and India, with wbat Hovaguimian says are "excellent results."

To encourage individual departments to cut costs, as much as possible of the group's overheads are being broken down and decentralised. Departments are charged interest on the overheads they carry; they pay depreciation on their own equipment and they pay their own computerisation development costs.

● Great efforts have been made to reduce the debt owed to the company by its customers — mainly car buyers. In the last 18 months the debts on which the company bas been making provisions bave fallen by 40 per cent.

Rather than employ the traditional teams of collectors, wbo call on the debtors' homes, the Mulla Group's collection depertment uses telephone calls and telex messages, both of which are free in Kuwait. It contacts its customers as soon as they fall into arrears, normally sending a telex to the customer's office in order to cause him e little embarassment.

Its telepbone debt collectors are mostly women. Suprisingly, it finds that women employees — mostly non-Knwaitis — are quite good at extracting money from Kuwaiti men. It thinks that the explanation is that the average Knwaiti is quite happy to have a lady debt collector talk to his wife on the telephone, if she calls wben he happens to be out, but be is instantly put in an nnco-operative mood if he returns and discovers that his wife has been rung by a strange man.

In more difficult cases the company is reluctant to sue its customers, mainly because there is no concept of precedent in Arab legal systems and the results of court cases are unpredictable. However it is not so difficult to get an injunction to stop a debtor travelling.

● Finally, this year the company bas done particularly well it its car aales because it realised that the yen was going to rise and bought the currency forward. It was able to bold the prices of its Mitsubishis steady while the price of Toyotas and Nissans increased.

According to the Japanese Government'a export figures, in the months from January to August, exports of Toyota and Nissan cars and pick-ups to Kuwait fell by 24 and 46 per cent respectively. Exports of Mitsubishi vehicles ran at 1,570 units, a much smaller number in absolute terms than exports of the two competitors, but in percentage terms a marginal increase on the previous year's figures.

For the year as a whole this suggests that the Al Mulla Group'a imports will be 3,700, which is as many units as the company has ever sold and, it thinks, not a bad figure for the bottom of a recession.

Najeeb Abdulla Al Mulla, chairman of the Al Mulla Group which supplied and maintains the air conditioning at the Kuwait National Petroleum Company

Both masters and servants

Michael Skapinker explains why promotion can create divisions

WHY IS it that when people become managers they treat their subordinates in ways which would have angered them when they were subordinates?

Brian Dolan and John Miller, for example, are senior engineers in an electronics company. They were colleagues in the R and D department and used to drop into each other's offices unannounced. Then Brian was promoted to director of R and D. A few days later he phoned John and asked him to come into his office to discuss something. John was irritated. Why couldn't Brian come into his office instead of phoning him? Weren't they friends?

Mary Scarpa is divisional director of a speciality steel manufacturer. She asked Roger Harrison, a middle manager, what he thought of a major capital investment decision she was about to make. She asked him to be candid. He had serious doubts about the decision. But he did not think that Mary really wanted him to be candid. He thought she was asking him to agree with her. So he conveniently forgot the request.

The problem with Brian and Mary is that they do not remember how they felt when they were subordinates. If he gave it a moment's thought, Brian would realise that be would feel the same way as John if the situation were reversed. Mary too would remember that criticising one's superiors seems a risky thing to do. Superiors decide one's promotion and salary prospects.

"Such problems occur with surprising frequency in work situations," Fernando Bartolomé and André Laurent write in the latest issue of the Harvard Business Review. "Usually they arise not because superiors are inherently insensitive or power hungry or because subordinates are naturally rebellious, but because people don't understand how strongly hierarchical position affects behaviour in organisations. Workplace conflicts are often attributed to personality differences, but the root of the problem is usually structural."

Bartolomé, associate professor of management at Bentley College in Massachusetts and Laurent, a professor at Insead, the Fontainebleau-based business school, say that it is ironic that so many managers behave in this way, because many have a dual position in the organisation. They have subordinates, but they also have superiors of their own.

"Being both master and servants of power, they should be able to understand the perspectives of the two groups of people who play the most important role in their professional lives—namely their superiors and subordinates," they write.

The writers asked 105 executives of *major companies* to answer questionnaires on the subject. Half were asked what they expected from their subordinates. The other half were asked what they expected nf their superiors.

The superiors said they expected good performances, loyalty and nbedience, and honesty from their subordinates. "But at the same time, they don't see the potential conflict that lies in demanding loyalty and desiring honesty and frankness from subordinates," the writers say.

As subordinates, the managers wanted clear guidelines from their superiors, as well as regular feedback without having to ask for it. They also disliked having their superiors peering over their shoulders. They wanted to be allowed to complete the job in the way they saw fit. And yet how many of them treat their subordinates this way?

"Nobody is to blame for these distortions of hierarchical power. The problem is inherent in organisational life . . . The problem cannot be avoided, but it can be controlled if managers strive to link their two roles as masters and servants of power," Bartolomé and Laurent say.

Managers need to ask themselves more often how they would feel if they were treated in the way they treat their subordinates. They also need to take the initiative in finding out whether or not their employees agree with the way things are being run.

"Directly questioning subordinates rarely works when you're trying to find out what's wrong. Managers must look for subtle clues" in their employees' behaviour. "Eventually, they can create the necessary atmosphere of trust for solving problems, but they can't do it instantly."

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BUSINESS PROBLEMS

BY OUR LEGAL STAFF

Tenants' rights

In respect of a commercial property let on a 60 year lease expiring in 1993 at a fixed rent for the whole period of the lease, what rights will the tenants have as to a new lease, rent review periods, repairing obligations etc, in 1993? Will the Landlord and Tenant Act 1954 epply or would earlier statutes give more beneficial terms to the tenant and, if so, in what respect?

If the premises are occupied for the purpose of a business carried on by the tenant, or for that and nther purposes, the protection afforded by Part II of the Landlnrd and Tenant Act 1954 will be available, even though the lease was nriginally granted for a term nf 60 years.

Liquidation discontinued

I am a director of a private limited company which I decided to put into a members' voluntary liquidation. A liquidator was appointed who has since resigned.

The company is now trading again as it was before the liquidation arrangements were made.

Would you kindly tell me what steps I must now take to stay the proceedings and end the liquidation arrangements to enable it to continue to trade as hitherto.

You must apply to the court for an order staying the winding-up. It will be necessary to satisfy the court that all those interested in the liquidation, whether as creditors or as shareholders, are placed in no worse position if a stay is granted.

No legal responsibility can be accepted by the Financial Times for the answers given in these columns. All inquiries will be answered by post as soon as possible.

Court can review Takeover Panel decisions

REGINA v THE PANEL ON TAKE-OVERS AND MERGERS, EX PARTE DATAFIN AND PRUDENTIAL-BACHE SECURITIES INC

Court of Appeal (Sir John Donaldson, Master of the Rolls, Lord Justice Lloyd and Lord Justice Nicholls): December 5 1986

THE DECISIONS of a self-regulating body without statutory or contractual source of power are subject to review by the court if the body performs a public duty; but the court will be reluctant to interfere in the body's findings of fact and will reject an application for review if the decision was not reached by illegality, irrationality or procedural impropriety.

The Court of Appeal so held when refusing an application by Datafin plc, an English company, and Prudential-Bache Securities Inc of New York, for judicial review of a decision by the Panel on Take-overs and Mergers that the Kuwait Investment Office (KIO) and Norton Opax plc, an English printing company, had not acted in concert in breach of the City Code on Take-overs and Mergers in respect of the take-over of McCorquodale plc, another printing company.

SIR JOHN DONALDSON said that the Panel on Take-overs and Mergers was an unincorporated association without legal personality. It had about 12 members, the chairman and deputy chairman being appointed by the Bank of England. It had no statutory, prerogative or common law powers and was not in contractual relationship with the financial market or those who dealt in that market.

It was a self-regulating body in the sense that a group of people, acting in concert, used their collective power to force themselves and others to comply with a code of conduct of their own devising.

Lacking any authority *de jure* it exercised immense power *de facto* by devising, promulgating, amending and interpreting "the City Code on Take-overs and Mergers;" by waiving or modifying the application of the Code in particular circumstances; by investigating and reporting on alleged breaches of the Code; and by the application or threat of sanctions.

The principal issue in the present appeal was whether this remarkable body was above the law. Its respectability and *bona fides'* were beyond question.

The background was that in 1986 competing offers for McCorquodale were made by Norton Opax, and by Datafin backed by Prudential-Bache.

Consistently with the Panel's declared intention of doing equity between one shareholder and another, the Code contained rules which prevented an offerer from buying shares at prices higher than that contained in his offer without revising the offer up to match the prices; and which prevented his increasing any offer made on the express basis that it would not be increased.

The rules contained restrictions on the freedom of persons acting in concert with the offerer, referred to as "concert parties."

Datafin and Prudential-Bache maintained that KIO and Norton Opax were concert parties, and that KIO had acted in breach of the Code. The complaint against Norton Opax and KIO was put to the Panel and considered by its executive, which heard evidence. It concluded that at no stage during the course of the offer had there been any agreement or understanding between KIO and Norton Opax leading to a holding that they were acting in concert.

The complaint was further considered by the Panel which also heard evidence, and was dismissed.

Datafin and Prudential-Bache sought leave from Mr Justice Hodgson to apply for judicial review of the Panel's decision. The judge refused, indicating that the court had no jurisdiction. The application was renewed to the Court of Appeal which gave leave because the issue as to jurisdiction seemed arguable.

In December 1983 the Department of Trade and Industry made a statement explaining why the Licensed Dealers (Conduct of Business) Regulations 1983 (SI No 587) contained no detailed provisions about take-overs.

It said that with regard to public companies and private companies which had some kind of public involvement "The Department considers it best to rely on the effectiveness and flexibility of the City Code on Take-overs and Mergers." It saw the City Code as an important safeguard for the shareholders of the public company . . . and as a means of ensuring that takeovers are conducted properly and fully in accordance with the provisions of the Code."

As an act of government it was decided that, in relation to take-overs, there should be a central self-regulatory body which would be supported and sustained by a periphery of statutory powers and penalties wherever non-statutory powers were insufficient or non-existent, or where EEC requirements called for statutory provisions.

The issue was whether the supervisory jurisdiction of the courts extended to such a body discharging such functions, including some quasi-judicial in nature.

Mr Alexander, for the Panel, submitted that it did not. He said the jurisdiction extended only to bodies whose power was derived from legislation or the exercise of prerogative.

In *Regina v Criminal Injuries Compensation Board, ex parte Lain [1967] 2 QB 864, 884,* Lord Diplock said that the High Court's jurisdiction to supervise inferior tribunals "has not in the past been dependent on the source of the tribunal's authority . . . except where such authority is derived from agreement of parties to the determination."

The Criminal Injuries Board, in the form which it then took, was an administrative novelty. It would have been impossible to find a precedent for the exercise of the supervisory jurisdiction of the court which fitted the facts. Nevertheless, the court not only asserted its jurisdiction, but further asserted that it was a jurisdiction which was adaptable thereafter.

That process had been taken further in *O'Reilly [1983] 2 AC 237, 279,* in *CCSU v Minister for the Civil Service [1985] 1 AC 374* and in *Gillick [1986] AC 112.*

In all the reports, it was possible to find enumerations of factors giving rise to the jurisdiction, but it was a fatal error to regard the presence of all those factors as essential or as being exclusive of other factors.

Possibly the only essential elements were what could be described as a public element, which could take many different forms, and the exclusion from the jurisdiction of bodies whose sole source of power was a consensual submission to its jurisdiction.

Given its novelty, the panel fitted surprisingly well into the format which the court had in mind in the *Criminal Injuries Board* case.

It was performing an important public duty. That was clear from the expressed willingness of the Secretary of State for Trade and Industry to limit legislation in the field of take-overs and mergers and to use the Panel as the centrepiece of regulation.

The rights of citizens were indirectly affected by its decisions, and in its determination of whether there had been a breach of the Code it had a duty to act judicially.

Its source of power was only partly based on moral persuasion and the assent of institutions and their members, the bottom line being the statutory powers exercised by the Department of Trade and Industry and the Bank of England.

In that context it would be very disappointing if the courts could not recognise the realities of executive power and allowed their vision to be clouded

The court had jurisdiction to entertain applications for the judicial review of decisions of the panel.

A special feature of public law decisions was that they subsisted and remained fully effective unless and until they were set aside by a court of competent jurisdiction.

The Panel and those affected should treat its decisions as valid and binding unless and until they were set aside. They should ignore any application for leave to apply for review, since to do otherwise would enable applications to be used as a mere ploy

If the Panel found a breach of the rules, there was an internal right of appeal which must be exercised before the court would consider intervening. Where, as in the present case, the complaint was that the Panal should have found a breach but did not do so, the court would be even more reluctant to move in the absence of any credible allegation of lack of *bona fides.*

It was not for a court exercising judicial review to substitute itself for the fact-finding tribunal. The Panel and not the court was the body charged with the duty of evaluating the evidence and finding the facts.

The court's role was to review the Panel's decision and to consider where there had been an "illegality," ie whether the Panel had misdirected itself in law; "irrationality," ie whether the Panel's decision was so outrageous in its defiance of logic or accepted moral standards that no sensible person who had applied his mind to the question could have arrived at it; or "procedural impropriety," is a departure by tha Panel from any procedural rules governing its conduct

The present application was rejected. The Panel had approached the matter on the basis of the definition of "concert party" in the Code rules, which required a finding on the evidence of an agreement or understanding. There was no such evidence, or none sufficient to satisfy the panel. Had it not been for this issue on jurisdiction, leave to apply for review would never have been given.

Lord Justice Lloyd and Lord Justice Nicholls gave concurring judgments.

For Datafin and Prudential-Bache: Jeremy Lever QC and Derrick Turiff (S. J. Berwin & Co).

For the Panel: Robert Alexander QC, Timothy Lloyd QC and Keith Rowley (Freshfields).

For Norton Opax and Samuel Montagu (financial advisers) as intervenors: Jonathan Sumption QC and Stephen Richards (Ashurst Morris Crisp & Co).

By Rachel Davies
Barrister

Creditors have prior interest in company's house

WINKWORTH v EDWARD BARON DEVELOPMENT CO LTD

House of Lords (Lord Keith of Kinkel, Lord Templeman, Lord Griffiths, Lord Mackay of Clashfern and Lord Ackner): December 4 1986.

DIRECTORS WHO occupy a company house as licensees regarding it as their matrimonial home, and who pay the company the proceeds of sale of their former home in part settlement of improperly incurred debts unconnected with the purchase of the company house, do not thereby acquire an equitable interest in the property entitling them to retain possession with priority over the company's creditors.

The House of Lords so held when allowing an appeal by Mr Winkworth, mortgagee, from a majority Court of Appeal decision (Lord Justice Kerr dissenting) that Mrs Wing had acquired an equitable interest in a house owned by the company, Edward Baron Development Company Ltd, prior to the legal charge acquired by Mr Winkworth.

* * *

LORD TEMPLEMAN said that the company's issued share capital consisted of two shares. One was transferred to Mr Wing and the other to Mrs Wing for £115,000. The purchase price was extracted from the company's bank account. Mr and Mrs Wing became sole directors.

The company acquired property at Hayes Lane, Beckenham, Kent. It paid £70,000 for the property and £12,000 for fixtures and fittings and incidental expenses.

Mr and Mrs Wing went into occupation of Hayes Lane, which they regarded as their matrimonial home and which they intended to transfer to themselves when the company had been reimbursed for its expenditure.

Mr Winkworth claimed to be mortgagee of Hayes Lane. His claim was resisted by Mrs Wing. Mr Gerald Godfrey QC, sitting as a deputy Chancery judge, ordered Mrs Wing to deliver up possession to Mr Winkworth. By a majority, the Court of Appeal reversed his decision on the ground that Mrs Wing had obtained an equitable interest prior to Mr Winkworth's charge.

Mrs Wing left the company's affairs in the hands of her husband. After taking control of the company and paying for the shares out of its bank account, Mr Wing drew further cheques on its account for a washing machine, motor car and jewellery. He instructed the company's solicitors to hold the title deeds of Hayes Lane to the order of the bank. He intended that the company would raise £70,000 on a mortgage of Hayes Lane to a commercial lender, and would then pay off the bank overdraft out of the mortgage money.

Mr Wing did not confide that intention to his wife because she would not have agreed to a mortgage of the matrimonial home.

The company's overdraft exceeded £16,000 when, in November 1980, Mr and Mrs Wing sold their former matrimonial home, The Drive, Beckenham, which they held as joint tenants. The balance of proceeds of sale, amounting to £8,601, were paid into the company's bank account, thus reducing the overdraft from £16,760 to £8,159. Mrs Wing authorised payment into the bank account.

On August 26 1981 Mr Winkworth advanced £70,000 to the company. The charge was registered and appeared to be signed by both Mr and Mrs Wing. Mrs Wing's signature had been forged by Mr Wing.

The company, having been stripped, declined into insolvency and went into liquidation in 1983.

It was now contended by Mrs Wing that the payment of £8,601 into the company's bank account in November 1980 obtained for her an equitable interest in Hayes Lane in the proportion that £8,601 bore to £70,000 and that her equitable interest took priority over the claims of the company's creditors, secured and unsecured.

The argument exploited the equitable doctrine that a legal owner held in trust for the persons who contributed to the purchase price of the property or made contributions referable to the acquisition of the property.

The £8,601 paid into the company's bank account from the proceeds of sale of The Drive reduced the company's overdraft which was secured by the solicitors' undertaking to hold the Hayes Lane title deeds to the order of the bank. Therefore, it was said, the payment was referable to the acquisition of Hayes Lane by the company, and equity required the company to hold Hayes Lane in trust for the company and for Mr and Mrs Wing, or one of them.

The simple answer was that the payment of £8,601 was not referable to the acquisition of Hayes Lane, which had already been bought and paid for in full. There was no connection between the payment for Hayes Lane and the incurring of the overdraft. There was no connection between the acquisition of Hayes Lane and the payment of £8,601.

The proper inference to be drawn from the admitted facts was that Hayes Lane and the £8,601 paid into the company's bank account became assets of the company managed by Mr Wing for the benefit of himself and Mrs Wing as sole and equal shareholders, not as owners of equitable interests.

Equity would not intervene to confer on Mrs Wing an interest in priority to creditors because her husband, without her knowledge, impliedly agreed to charge the title deeds of Hayes Lane with the repayment of improperly incurred debts.

Equity operated on conscience but was not influenced by sentimentality. A company owed a duty to its creditors, present and future. The conscience of the company, as well as its management, was confided to its directors. A duty was owed by the directors to the company and to the creditors to ensure that its affairs were properly administered, and that its property was not dissipated or exploited for the benefit of the directors to the prejudice of the creditors.

Mr and Mrs Wing committed a breach of their duty to the company and its creditors when £115,000 was withdrawn from its account to pay for their shares and when the overdraft was incurred and increased for their benefit. When Mr and Mrs Wing paid in the £8,601 their liability to the company and its creditors far exceeded that sum.

When the company received the £8,601 its conscience did not require it to confer on Mrs Wing an interest ranking in priority to the claims of creditors. On the contrary, it was under a duty to apply the £8,601 (as it did) for the benefit of its creditors and in part repair of the damage inflicted by the directors.

Mr Wing was responsible for the company's insolvency. Mrs Wing was not aware that as a director she owed any duty to the company or its creditors. But in view of her failure to discover and exercise her powers as a director so as to ensure that the company's affairs were properly conducted, equity would not compel or even allow the company to hold part of its property on trust for her, to the detriment of and in priority to the claims of creditors.

It was submitted that even if Mrs Wing had no equitable interest Mr Winkworth could not enforce a forged legal charge.

The company must either admit the validity of the charge, or provide a new legal charge, to which Mr Winkworth was clearly entitled. The liquidator had sensibly conceded the validity of the existing legal charge. That was now binding on the company and enabled Mr Winkworth to exercise the powers conferred by it so as to obtain possession against Mrs Wing.

The appeal was allowed.

Lord Keith, Lord Griffiths, Lord Mackay and Lord Ackner agreed.

For Mr Winkworth: Andrew Morritt QC and Dorid Parry (Parlett Kent & Co).

For the liquidator: Alan Word QC and Peter Rolls (Clemence Turner & Henry).

By Rachel Davies
Barrister

THESE REPORTS are published in volume form with the full texts of judgments. For subscription details contact Kluwer Law Publishing, Africa House, 68, Kingsway, London WC2B 6BD. Phone 01-831 0391.

Television/Christopher Dunkley

The right to be biased

The most exciting and important non-fiction programme on television at present is *The New Enlightenment*, a six-part series which reaches its penultimate episode on Channel 4 at 8.30 this evening. The subject is political philosophy. For the first time on television, so far as I am aware anyway, we have here a series which not only describes one particular line of political thought, but openly espouses it.

It has often been argued in this column that until television takes unto itself the right to screen politically committed programmes (or philosophically or religiously committed programmes) the medium cannot consider itself properly grown up. We know from 500 years of print that while a striving after balance and objectivity leads to one admirable sort of journalism, there is another sort — also essential in a truly free society — which depends upon the right to be biased, the right to adhere to one view and reject others, the right to proselytise.

Until the appearance of Channel 4 "objectivity" was the rule in virtually all British television journalism. This meant that when current affairs programmes covered, say, some burning social issue, "balance" was attempted by giving equal time to representatives of different political parties. Since all main political parties in post-war Britain have favoured, to a greater or lesser extent, the perpetuation of the welfare state, this often made for a type of television journalism which would scarcely have been regarded as "balanced" by a visiting Martian.

Nevertheless the system could be expected to produce a roughly fair representation of the spectrum of British political opinions. The only trouble was (is) that within the television system most of those having any power to choose whereabouts to put the fulcrum to achieve this balance happen to have views slightly to the left of centre, or that is my impression.

Channel 4 began to break out of the television straitjacket by encouraging people to make openly committed programmes: *Comment* allows time for individuals to make opinionated statements; *Right To Reply* supplies the means for viewers to criticise television's own output, and *Diverse Reports* provides for half-hour current affairs programmes to be created with a specific point of view. These have ranged from an anti-royalist programme to

Kenneth Minogue

one which, three years ago, urged the privatisation of bus services.

Interesting and important though these series have been, the results have not been dramatic: it has been as though television had at last acquired a correspondence column, combining letters from The Guardian and the Daily Telegraph, and a feature page, combining work from The Times and the Morning Star.

The New Enlightenment is more important. Made by Diverse Productions, the company responsible for *Diverse Reports*, produced by David Graham and Philip Clarke, and presented by Kenneth Minogue of the LSE, it puts together history, philosophy and contemporary politics to show how a particular type of political thought, that of John Locke and Adam Smith, is starting to be of importance once again not only in Britain and the US, but increasingly in other parts of Europe, in India and even in China.

Programme 1 described the chain of events which led from Frederick Hayek's "The Road to Serfdom" to the founding of the Institute of Economic Affairs, the formation of the Mont Pelerin Society, the participation of men such as Keith Joseph, Enoch Powell and Geoffrey Howe, and of an equally influential group of Americans who ended up as Reagan's advisers. Nothing there, perhaps, to compare in terms of historical drama with Lenin's trip on a closed train to the Finland Station, and of course we should beware the selective use of hindsight to create a spurious sense of significance. That said, I for one had never before seen the historical connection between Thatcher and Reagan so clearly delineated.

Near the start of Programme 2 we were introduced to an Edinburgh woman who has given birth to two children fathered by the same man, whom she has not married. The commentary made the point that in a previous age social pressures would probably have ensured a marriage and thus support for the children, but that today the woman is able to make another choice: to live off the state. It was hard to assess what damage the welfare state had done to the British spirit of independence, said Minogue. Anybody who has stood in a pub or a bus queue in the past 25 years knows that this sort of comment (often put more crudely: "What gives her the right to live off us?" etc) is utterly commonplace.

But it is some indication of the degree to which television has been emasculated, and some confirmation of the normal left-wing dominance of current affairs, that one felt quite shocked even to hear hints of this on television. The same applied to a number of points about racial groups made in Programme 3: that Jewish and Chinese immigrant communities in the US with long traditions of family loyalty and a powerful belief in self-help have prospered and joined the highest per-capita income groups in the country, while black and Irish communities, relying more upon political activities, have fared much less well. In the age of "Baa Baa Green Sheep" when it is taboo even to imply the existence of racial distinctions such outspokenness is almost breathtaking.

Programme 4 was bolder still, declaring that "Profit is the signal that an entrepreneur is directing his energies in the right way and making things that people want." Programmes 5 and 6 declare that even governments have to earn their revenue by supplying what people want, and that if they pitch their prices too high things go wrong, as in Italy where taxpayers opt out and join the black economy. In the final programme caution is thrown to the winds and Prof. Lord Bauer is allowed to express the heresy that, because of coercive collectivisation, wholesale expropriation and forced movement from one place to another, life for individual Africans today can be much worse than it was under colonial rule.

The point I want to make is not that the series is wholly convincing. Indeed, it charges past a number of important difficulties without seeming to notice them, such as the fact that not everybody believes perpetual growth is a good or even possible thing. One might ask how you de-regulate the law of contract governing employment without finding yourself straight back in Dickens' blacking factory, and whether you can *really give freedom* to the entrepreneur without promptly having the Green Belt covered in computer factories. If the answer is that government regulation would still be necessary then are we not talking about a mere modification to the existing system rather than the change in principle that seems to be implied throughout the series?

Those assertions about the debilitating effect of welfare programmes, the efficacy of family effort, the sheer needlessness of much government activity (tonight's programme reveals that Swiss MPs sit only 12 weeks of the year and receive no salary, only expenses), the relative benevolence of colonialism, and so on, are not necessarily right. But nor are they necessarily wrong—and that is the point. *The New Enlightenment* has broadened the political grammar that is permissable on television.

To dismiss the series (many have) as extreme right wing propaganda or Thatcherism writ large is surely to misunderstand not only the programmes but the Thatcher government. Even within my own small area of experience—the world of television—this administration has proved itself ready to interfere at every level: moral, technological, legal, financial, journalistic. A more interventionist government would be difficult to imagine, whatever its connections with the non-interventionist ideals of the Mont Pelerin people.

And as for "extreme right wing," that is a term which would presumably be applied to the totalitarian ideas of Hitler or Pol Pot. What Minogue is talking about seems closer to a dictionary definition of classical anarchy: "a harmonious condition of society in which government is abolished as unnecessary." It is a philosophy which has no place in the left/right continuum of British politics. That is why it is so exciting to find it being propounded on television.

Samson/Covent Garden

Max Loppert

Samson returned to Covent Garden in 1985, the Handel centenary year, as the company's contribution to the London celebrations. It was a fairly dire form of tribute: Jon Vickers, massively weighing into the title role, and Julius Rudel, in feeble charge of the pit, did most damage. Now there is a further run of *Samson* performances, with a less self-absorbed and sententious leading tenor, Robert Tear, and a noted Handel conductor, Roger Norrington. The edition used is faithful, the executive style somewhat less far from the mark. The Royal Opera *Samson* is still a failure—but at least it is now an honourable failure.

Samson, an oratorio unintended for these stage purposes, could hardly hope to succeed here: the forms and the pulse beats of the music run counter to the demands placed on them for most of the way, and the need for "filling-in" to to make up the difference becomes uncomfortably pressing. Last time around, the Elijah Moshinsky production won a benefit-of-the-doubt rating simply in view of the musical disadvantages against which it was having to struggle. This time, the situation is largely different. Trollies are trollied, and screens slid across the stage in ceaseless search for dramatic fluidity, but the fidgety, fussy movements end up as distractions and the genuinely interesting ideas in Moshinsky's view of the work suffer. There is less untidy bustle in Act 3, and the Jewish funeral rites are movingly accomplished.

On Monday Norrington struggled to exact from the orchestra the lightness and clarity of articulation to which his many well-remembered Handel performances in other places have accustomed us. At first, during a very spottily played overture, it seemed a struggle already lost. But gradually, and in spite of the unsuitability of the house and the producer's unhelpful chorus siting (which positively invites poor ensemble), his efforts began to bear fruit. From the sublime funeral music to the blaze-of-light D major close, well handled by Moshinsky, the sweep of the performance was at last authentically Handelian—and this in defiance of all the many things in the performance that could not be so described.

Tear, as ever a passionately committed Handel singer, makes no attempt to exert his predecessor's statuesquely "mythical" presence (and for that relief much thanks). He does not come across the Covent Garden spaces as a grandly heroic figure—the dry patches in the voice perhaps answer for that. But the

Carol Vaness and Robert Tear

emotional charge is fervent from the start, and develops with admirable certainty—the decisive yet gentle air discovered in "Thus when the sun" sets the seal on an intelligent artist's response to a difficult task. Gwynne Howell, a warmly natural Manoa (not quite settled at the start), and Donald McIntyre, a somewhat blustery Harapha, are the other newcomers — the latter is the main victim of the producer's circling trollies.

Carol Vaness, the 1985 Dalila, now adds the Philistine and Israelite women (and thus "Let the bright Seraphim") to her duties. The lustrous soprano is slow to speak (sharper consonants would help); a brighter, "quicker" sound is properly called for. The gentle youth Micah, transformed here into a serving woman (why?) finds Sarah Walker in nobly eloquent mood but in marginally less full voice than previously. Although this is hardly a "show" to be recommended to the general public, Handelians will no doubt want to pay a return visit.

Die Fledermaus/Coliseum

Martin Hoyle

The English National Opera *Fledermaus* reaches a good *Volksoper* level that should see Christmas out and the New Year in with plenty of zip, if not as yet much sparkle.

Herbert Prikopa is a tried and trusted operetta-hand at ENO. Under his baton the overture is as brisk and trim as a hussar in dress uniform. On the first night the orchestra played well, even managing that *echt*-Viennese tiptoe hesitancy on the second beat of a waltz. Mr Prikopa's unsentimental and vigorous reading occasionally left the singers behind, notably in the Act 1 trio of legal perplexity and when Alfred bibulously launched the first act finale. Elsewhere there was energy and discipline, even if the champagne lacks fizz.

Tom Hawkes's 1979 production, revived by Karen Stone, wears well. Tim Goodchild's opulent sets verge on tongue-in-cheek vulgarity, much as another Strauss is done in another opera house: only here it looks more suitable. Rosalinda's gowns are just this side of garish (her Act 1 pink and blue number only by a millimetre). The Eisensteins obviously enjoy their money: the fruits of a Viennese Big Bang, or shares in Danube Gas, perhaps.

In Hungarian disguise, Rosalinda comes over as a Gabor in acquisitive mood. She should not be directed to send up the mournful Magyar opening to the Czardas. In general, the production eschews the romping ooh-la-la that traditionally mars British operetta style.

In this revival, interest centres on the Eisensteins, both new to their assignments in the production, both personable, both plausible actors. Alan Opie's baritone is darker than that of the manipulating Falke—Christopher Booth-Jones is a young smoothie in this part: the two might with advantage swap roles. Mr Opie dances a nifty polka, is not always happy getting his tongue quickly round Christopher Hassell's lyrics but, like his stage wife, tries to sound the right class—not a noticeable preoccupation of many actors these days.

Valerie Masterson is Rosalinda. Formerly an Adele, she is a light-weight charmer in the tradition of the young Gueden on the old Krauss recording, or the maturer Schwarzkopf, rather than a full-blooded successor to Lehmann, Jeritza or Welitsch. The Czardas cruelly reveals a lack of support and, one hopes temporary, absence of bloom in the middle and lower registers. The coloratura technique is unimpaired but one misses full tone in those coyly embarrassed little vocal leaps in the Act 1 finale when Rosalinda explains away the drunken Alfred as her husband.

Lillian Watson's Adele is the equal of her mistress in vocal agility (her Laughing Song roused a stodgy first night house). Fiona Kimm is such an accomplished actress that it is ungenerous to complain of squally tone in her blasé Orlofsky. Eric Shilling's veteran and much-loved prison governor remains as ram-rod correct and faintly baffled (except when yielding to charms) as ever. Only a rosy dawn that looked like a distant conflagration actually goes over the top.

Candida/King's Head

Claire Armitstead

In the era of Faith in the City Bernard Shaw's conceit of a Hackney prelate issuing aureate sentiments from his socialist pulpit takes on a comic topicality: here is one who would be wringing his hands with the best of them over evils of unemployment and social disquiet, unworthy though the thought might seem to Runcie's mob.

But then fear of unworthiness was not, it must be said, a weakness that can be laid at the door of the late, great GBS. Were he around to see this small but perfectly formed revival of Candida I wager he'd be smiling into his beard.

Frank Hauser directs with the nimbleness of a mountain goat feeling his way around the edifice of Shavian thought, dislodging a laugh here, a silence there, and allowing them to ricochet into the audience.

A significant part of his achievement is his excellent cast. David Rintoul plays the socialist prelate Morrell with a handsome half-smile of superiority that freezes on his face as the danger of his situation becomes clear. Challenged for the affections of his beloved Candida he suddenly becomes a child, prone to fits of aggression, reddening visibly over the top of his dog collar. Rintoul avoids the cliché of intoning preacher until the last moment, making his final, insufferably pompous profession of love for his wife doubly excruciating.

The brittle confidence of Morrell is laid bare in his confrontations with Rupert Graves' poetically dishevelled Marchbanks—a cowering cur of a man, who is a jitter of raw nerve endings yet is capable of standing on hidden depths of dignity.

Marchbanks' scenes with Maureen O'Brien's Candida are among the best in the play: here is the maternal flirt incarnate, a woman who revels in her power without admitting to it. Her expression as she straightens Marchbanks' cravat or allows him to hand her rug to her is the epitome of warmth and knowingness.

In the light of three such fine central performances Karen McMullen's foxy secretary Prossy and Nicholas Amer's comically vulgar Burgess fade somewhat into the background: by which no criticism is meant. There are no weak links to be found.

Maureen O'Brien and David Rintoul

Die Winterreise/Wigmore Hall

David Murray

Having a *Heldentenor* to sing Schubert's *Winterreise* is not necessarily the grim prospect you might think; but having him sing it with Good Taste well and truly causes the heart to sink. So it did on Monday, when Siegfried Jerusalem—snatching a night between *Zauberflöte* performances at the Royal Opera—began his "winter journey" in a tone of mild, dejected apology. Not defiant, not tragic, not bereft: just dejected. Throughout the performance (including the old-fashioned interval, which doesn't help this cycle) his accompanist Siegfried Mauser hewed tactfully to a middle way, never contradicting his over-temperate singer, though in his unemphatic manner he managed unlike the tenor to be strictly accurate with the notes.

That may suggest that the cycle was mild from start to finish, which isn't quite right; some of it was glummer than that. Any song marked "Mässig" (Moderato) was liable to be taken Andante, "Etwas langsam" or "Nicht zu langsam" to be read as remorselessly slow—most obviously the final song, in which the eerie hurdy-gurdy lost its effect at Jerusalem's tempo. The few quick songs proceeded at something like normal pace, but cautiously. One realised why in "Mut," where every one of the lusty semiquaver passages was gulped—the required technique plainly isn't within this tenor's means.

It was a pity, for it seemed to me that many other, bolder things would have been possible for Jerusalem. An uneven *Winterreise* with bursts of vitality would have been more satisfying than all that dogged restraint. He has after all an enviable instrument, and he did nothing foolish or insensitive with it—nor, sadly, anything striking or incisive either. For want of any firm intentions, he let some songs go by facelessly. "Die Krähe," for example—that Van Gogh vision of wheeling crows above a suicidal hero—sounded pleasantly melancholy; and before it "Der greise Kopf" betrayed neither self-mockery nor despair.

Schubert's cycle deserves more than a well-intentioned, self-effacing sketch of a performance.

Penn & Teller/New York

Michael Coveney

An extraordinary double act is occupying the Westside Arts Theatre in New York until January 4; Penn & Teller do magic tricks, josh the audience and renew their own professional relationship of 11 years in grey suits and sober ties, mixing with customers in the interval while playing us in and out with the freakishly hypnotic recorded voice of Yma Sumac.

We have card tricks, juggling, knife-throwing, levitation, needle-swallowing and fire-eating. Penn is Penn Jillette, aged 30, tall, massive, confidential and aggressive, sporting a designer punk quiff and one red finger nail. "Teller" is 37, small and puckish and silent. Together they demystify magic and intensify our pleasure in it.

The show opens with Penn reciting the great American poem "Casey at the Bat" at high speed as Teller tries to extricate himself from a straitjacket while suspended above a bed of knives. Members of the audience are implicated in many set-pieces of notable brilliance and ingenuity: hooded knife-juggling, levitation and two elaborate participation routines of unravelling a Biblical quotation and trying to outwit an iconic game show celebrity, Mofo the Psychic Gorilla.

Penn's non-stop gabbing is in itself a tour de force, swiping sideways at mainstream comedy magic stars like Doug Henning (America's Paul Daniels) and stabbing at alternative heroes such as Bruce Springsteen and Sam Shepard. The point is that Penn and Teller — who are building a nationwide reputation on *Saturday Night Live* and are on the verge of absorption, one hopes not extinction, in the movie business—are old-fashioned vaudevillians. This is traditional, skilful entertainment with a ferociously contemporary beat: original, full-blast, irresistible.

Penn recounts how he saw Teller—who has the sheepish, ingratiating demeanour of Buster Keaton or Stan Laurel—swallow the needles and determined to work with him. And in a really rather moving final sequence he conjures the world of his boyhood and infatuation with the freak show while swallowing fire and describing the pain. The show, directed by Art Wolff, has been packing them in for some months now and, virtually on its own, gives the lie to New York's exaggerated reputation as an increasingly moribund theatre town.

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

December 5–11

Theatre

NEW YORK

Cats (Winter Garden): Still a sellout, Trevor Nunn's production of T.S. Eliot's children's poetry set to trendy music is visually startling and choreographically feline, but classic only in the sense of a rather staid and overblown idea of theatricality. (239 6262).

42nd Street (Majestic): An immodest celebration of the heyday of Broadway in the '30s incorporates gems from the original film like Shuffle Off To Buffalo with the appropriately brash and leggy hoofing by a large chorus line. (977 9020).

A Chorus Line (Shubert): The longest-running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions. (239 6200).

La Cage aux Folles (Palace): With some tuneful Jerry Herman songs, Harvey Fierstein's adaptation of the French film manages, barely, to capture the feel of the sweet and hilarious original between high-kicking and gaudy chorus numbers. (757 2626).

I'm Not Rappaport (Booth): The Tony's best play of 1986 won on the strength of its word-of-mouth popularity for the two oldsters on Central Park benches who bicker uproariously about life past, present and future, with a funny plot to match. (239 6200).

Big River (O'Neill): Roger Miller's music rescues this sedentary version of Huck Finn's adventures down the Mississippi, which walked off with many 1985 Tony awards almost by default. (246 0220).

The Mystery of Edwin Drood (Imperial): Rupert Holme's Tony-winning resurrection of the unfinished Dickens classic is an ingenious musical with music-hall tunes where the audience picks an ending. (239 6200).

CHICAGO

Pump Boys and Dinettes (Apollo Center): Facetious look at country music and down-home country life with a good beat and some memorable songs, especially one played on kitchen utensils has proved to be a durable Chicago hit. (935 6100).

WASHINGTON

The Marriage of Betty & Boo (Arena): Christopher Durang's latest swipe at domestic life and marriage has an autobiographical air as it dissects three generations of a contemporary American family. James C. Nicola directs a cast headed by Casey Biggs, Donna Snow and Thomas Anthony Quinn. Ends Nov 23.

LONDON

Les Liaisons Dangereuses (Ambassadors): Christopher Hampton's masterly version of Laclos' epistolary novel is sexy, witty and wise, like a collaboration between Marivaux and de Sade. Howard Davies's sell-out pre-Revolutionary production for the RSC has moved from the Pit with Alan Rickman and Lindsay Duncan still battling and bitching over lovers and other riffraff. (836 6111, CC 836 1171).

Misalliance (Barbican): Rarely seen Shaw, and a much underrated play, given the full RSC works by John Caird, a Polish new woman crashing into the surrey conservatory in her monoplane. Jane Lapotaire sparkles alongside Brian Cox, Elizabeth Spriggs and newcomer Richard McCabe (628 8795, CC 638 8891).

Lend Me a Tenor (Globe): Ian Talbot leads the new cast in Ken Ludwig's fizzing comedy about backstage tribulations in Cleveland, Ohio, during a doomed 1932 tour of Verdi's Otello. A blight at the opera. (437 1592, CC 379 6433).

The Phantom of the Opera (Her Majesty's): Spectacular but emotionally nutritional new musical by Andrew Lloyd Webber emphasising the romance in Leroux's 1911 novel. Happens in a wonderful Paris Opera ambience designed by Maria Bjornson. Hal Prince's alert, affectionate production contains a superb central performance by Michael Crawford. A new, meritorious and palpable hit. (839 2244, CC 379 6131/240 7200).

42nd Street (Drury Lane): No British equivalent has been found for New York's Jerry Orbach, but David Merrick's tap-dancing extravaganza has been rapturously received. (836 8108).

Kafka's Dick (Royal Court): Alan Bennett resurrects Kafka as a tortoise in the living room of a contemporary dogsbody researcher, an insurance clerk like his hero. Brave, strange and funny play about biography hinging, in part, on the enlarged matter of a small member. (730 1745/1857).

Woman in Mind (Vaudeville): Alan Ayckbourn's new comedy has a brilliant performance by Julia McKenzie as a dissatisfied housewife visited on her own garden lawn by an imaginary ideal family. Bleak but funny, hailed in some quarters as vanguard feminist drama; be not put off by that. (836 9987/5645).

When We Are Married (Whitehall): Impeccable, joyous revival of an English comic war-horse now with a new cast, but Bill Fraser returning as the tipsy Falstaffian photographer. (930 7765, 839 4455, CC 379 6565/6433).

Starlight Express (Apollo Victoria): Andrew Lloyd Webber's rollerskating folly has 10 minutes of Spielberg movie magic, an exciting first half and a dwindling reliance on indiscriminate rushing around. Disneyland, Star Wars and Cats are all influences. Pastiche score nods towards rock, country and hot gospel. No child is known to have asked for his money back. (834 6184).

NETHERLANDS

Amsterdam, Bellevue Theatre. English-Speaking Theatre of Amsterdam in Michael Frayn's Benefactors directed by Jill Shand (Tue to Thur). (247 288).

Saleroom/Antony Thorncroft

A costly music party

There was a pleasant early Christmas present for one seller at Christie's Old Master drawings sale yesterday: a red and black chalk by the 18th century French artist Portail of a musical quartet was bought by the London dealer Baskett and Day for £93,500, as against the top pre-sale estimate of £6,000. It is an elegant little sketch and was sought after by two keen bidders.

In contrast, what should have been the main lot, a portrait of a rosy cheeked boy by Liotard, was bought in at £27,000, way below a £40,000 estimate. It was drawn in 1773 on Liotard's second visit to London and depicts the son of Matthew Boulton, the celebrated ormolu manufacturer. It was the only major disappointment in an auction which totalled £779,548, with 7 per cent unsold.

A Guercino study of a young man, dated by the expert in this field, Sir Denis Mahon, to 1619-20, also did remarkably well, selling for £71,500, as against a £20,000 top estimate, and another item to far exceed forecast was a Paduan School drawing of around 1480 of Bacchus playing pipes, which went to the Boston dealer Ars Libri for £35,200, four times its estimate.

The sale was very strong in French drawings, and a Roman capriccio by Robert just beat its target at £29,200. A view of Whitehall, drawn by Canaletto in 1759, sold for £24,200, and a Domenico Tiepolo sketch of the meeting of St Peter and St Paul realised £22,000.

Sotheby's had considerable problems with the more archaic items of Chinese works of art yesterday, making £357,962, but with a massive 49.6 per cent unsold. There are great worries about the provenance of many of the older tomb goods. There were successes: Eskenazi, the London dealer, paid £46,200, over four times the top estimate, for a rare bronze and silver backed mirror, 4½ ins high, of the Tang dynasty, while a large archaic bronze vessel of the 10th century was only just below its estimate at £39,600. A Tang horse, 23 ins high, did well at £23,100 and a Tang covered stembowl sold for £22,000.

The final total for Sotheby's three session antiquities auction was £950,543, with a very reasonable 13 per cent unsold. On Monday afternoon a marble sarcophagus, covered with undulating fluting and dating from the 3rd century AD, fetched £36,300 as against a £10,000 top estimate, and a bronze bearded mask of Silenus, of the early 1st century AD, of which only a handful are known to have survived, sold for £33,000.

CEMENT

Jim Jones reports on the low ebb of confidence among Johannesburg industrialists

S African cement cartel gives little comfort

SOUTH AFRICA'S longer-term economic malaise is well summed up in the state of the R500m ($157m) turnover cement industry. It is dominated by a cartel of producers; government is tinkering ineffectually with the industry's operating environment and regulations; confidence is affected by persistent rumours of divestment; large quantities of production capacity—some nearly new—are in mothballs; capital spending plans are non-existent and likely to remain that way for several years; and demand from the industry's principal customers is responding sluggishly to economic stimulation from Pretoria.

Like many other industrial sectors, the South African cement industry is exclusive. The three players — Pretoria Portland Cement (PPC), which is a subsidiary of the Barlow Rand group, Anglo-Alpha, which is controlled by Holderbank, the Swiss group, and Blue Circle, which is jointly controlled by Blue Circle Industries of the UK and Gencor, the big mining house—have openly operated as a tightly managed cartel since 1971.

PPC has 45 per cent of the market, Anglo-Alpha has 35 per cent and Blue Circle 20 per cent. In addition, they jointly own Natal Portland Cement (NPC), which operates a small factory in Natal. The companies claim, with some justification, that the cartel has benefited customers. Cement factories need to be located next to limestone deposits, and the most suitable ones lie in the northern Cape, the western and eastern Cape, the western Transvaal and south Natal—all remote from the country's main industrial areas.

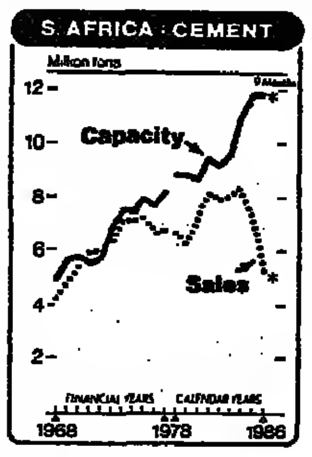
Within the constraints of market share, the cartel ensures that customers are supplied with cement from the nearest factory which, in turn, ensures that transport costs are minimised. On the other hand, the cartel has probably helped to exclude newcomers from the business. The last company to enter the South African market was Holderbank, and it came into the country half a century ago.

Three years ago the Government lifted price controls on cement. Now it is preparing to prohibit the producers' cartel. That does not seem to worry the companies since formal agreements will inevitably turn into informal ones. Mr Trevor Coulson, Blue Circle's managing director, believes that when the cartel is abolished one price leader will emerge, as is the case with many other South African industries, and that it will set prices which will be followed by the others.

The cartel arrangement did help combat dumping of Japanese cement in Natal last year, yet it has been largely powerless to protect the producers from the worst recession in decades. At the start of 1986 the industry had an installed capacity capable of 11.9m tons of cement a year, but it does not expect to operate at much more than 60 per cent of full capacity for the year as a whole.

All the wet process kilns are closed, and they will be the last to re-open as they are comparatively old and their operating costs are greater than those of dry process kilns. The industry's capacity problems were thrown into relief in June 1985, when PPC commissioned its 600,000 tons a year Dwaalboom plant and immediately mothballed it.

Blue Circle is the worst hit in terms of capacity utilisation. It commissioned a 1.1m tons extension to its Lichtenburg factory in June 1985 and immediately put parts of it and the old plant into mothballs.



Mr Coulson tries to be philosophical about the market. But his company's cement plants are producing at only half of their capacity, sales will be 5 per cent lower this year than in 1985, he expects no increase in sales in 1987 and only expects a 3 per cent increase in 1988 and 4 per cent in 1989.

Mr Johan Pretorius, Anglo-Alpha's group managing director, is more optimistic. He expects demand to rise by 4 per cent in 1987 and by a further 5 per cent in 1988 before levelling out in 1989 and declining in 1991. On the other hand, Mr Charles Hollmann, PPC's commercial director, is budgeting for a sales drop to 2.75m tons in 1987 from an expected 2.9m tons in 1986.

These comparatively dismal forecasts are supported by outside analysts. Stellenbosch University's Bureau for Economic Research (BER) noted in its latest Building and Construction report that the building industry is in its worst recession since the Second World War and that demand for residential building work is hampered by an oversupply of white housing.

White emigrants exceed white immigrants at present, while the general lack of confidence has persuaded white South Africans to steer clear of buying fixed assets. The mood will almost certainly change, but it is not clear when that will be. Earlier this year the Government announced plans to push about R750m into economic housing for black people.

That sum does not particularly impress the cement producers. According to industry figures, residential housing construction absorbs only about a quarter of the country's cement production, so the Government's house spending plans are probably too narrowly focused to have a great effect on the cement industry.

Nor do the producers believe that all of the ambitious engineering projects announced by the government in recent months will necessarily have any appreciable early effect on cement sales. The Highlands Water Scheme, which will divert rivers rising in Lesotho through a series of dams and tunnels from Lesotho to South Africa's rivers, and the Mossel Bay off-shore gas project, will provide some demand for cement. However, that demand will be spread over ten years or longer.

As Mr Coulson sees it, a general economic recovery which revives construction on a broad front is needed to lift cement demand to a level at which the producers could return large parts of moth-balled capacity to production. But that, he believes, will certainly not happen in the next 12 to 24 months.

Mr Coulson's views are echoed by Mr Pretorius who puts the R4bn Highlands and the R4bn Mossel Bay schemes into perspective. Each of them is budgeted at less than a new thermal power station. The Highlands scheme will start only two or three years from now and first-phase construction will be spread over seven years.

Industry executives agree that no further expansion of capacity will be planned until annual production reaches at least 9m tons. The industry has 27 kilns available for production of which 20, representing 90 per cent of total capacity, are dry process and the remainder wet process. The average age of the dry kilns is 11 years.

The recession has made the industry far more cautious than before. It wants to see a real recovery in the construction industry and certainty over long-term projects, such as road construction, before committing itself to new plant. The last round of expansion, which culminated with Dwaalboom's immediate moth-balling, was planned back in 1980 when the industry was continually operating at more than 85 per cent of production capacity and the building and construction industries persistently and ominously warned of cement shortages.

Those were the days when gold was briefly touching $800 an ounce, economic forecasters were predicting that the world recession would pass South Africa by, the cement producers were exporting to pre-Khomeini Iran and the local construction industry was expecting a boom in house building for black South Africans.

Gold's decline and the Government's ill-fated anti-inflationary austerity measures killed confidence. Now attention is focused on Blue Circle. Its British parent has already put its Australian affiliate up for sale and seems likely to follow suit by divesting from South Africa. Gencor and its subsidiaries have options over the British parent's South African shareholding.

BANKING

Diana Smith in Lisbon on the spread of foreign bank competition

Portuguese bankers shaken awake

BACK IN November 1984 Manufacturers Hanover Trust held a party to launch its first Lisbon branch in the palatial headquarters of the Portuguese Red Cross.

No irony was meant by the choice of venue. But Manny Hanny, soon followed by branches of Citicorp, Chase Manhattan, Barclays, Banque Nationale de Paris and the General Bank of Belgium, has forced a lethargic Portuguese banking market to do therapeutic gymnastics.

In the two years since Manufacturers Hanover set a brisk pace, the stimulus of foreign competition for bureaucratic nationalised commercial banks, and special institutions such as large savings and development banks, has made the market more inventive.

Huge state budget deficit

The share of the Portuguese banking market held by foreign banks and the four newly formed private sector Portuguese banks is not enormous. Total credit granted by the newcomers, plus Lloyds and Credit Franco-Portugais (Credit Lyonnais) is between $600m and $800m—about 2 per cent of commercial bank credit.

Assets are creeping up to the $1bn mark, with the emphasis on treasury bills, which were introduced in summer 1985 to diversify and cheapen financing of the huge state budget deficit, and to provide attractive paper for the nascent interbank money market.

But the impact of foreign latecomers has been massive in relative and psychological terms. It has proved that customers unused to diverse products will quickly accept them and shop around for the best deal.

Since March three large medium-term syndicated escudo loans—an option unknown to the local market a year ago—have been organised. One was by Citibank for Es 6bn ($40m) to CTT, the telephone company, another by Manufacturers Hanover for Es 6.5bn to EDP, the electricity corporation and Portugal's hungriest borrower, and the third by Banco Totta e Acores, also to EDP for Es 15bn, the largest loan ever raised locally.

Corporate treasurers, who now have a new range of short or medium term instruments to choose from, are keenly awaiting new financing instruments from the American banks.

The Portuguese government insists that tough credit ceilings must be imposed for the sake of macroeconomic policies, and when the foreign banks started up, their ceilings were constricting—leverage was often confined to one times capital. Nationalised banks were allowed more elastic weighting. The newcomers protested and improvements have been made, with leverage creeping up to seven or eight times capital, and medium term investment credit excluded from ceilings.

The words "minimum capital requirement" are to foreign banks in Lisbon what a nettle is to sensitive skin. In June, the present finance minister raised the minimum level from Es 1.5bn to Es 2.5bn, a 67 per cent increase. The foreign bank lobby is now haggling with the authorities over a flexible formule.

FOREIGN BANKS IN PORTUGAL

	Year of Inauguration
Lloyds	1863
CreditFranco-Portugais	1805
Banco do Brasil	1975
Manufacturers Hanover	1984
Chase Manhattan	1985
Citibank	1985
Barclays	1985
Banque Nationale de Paris	1985
General Bank of Belgium	1986

The outcry over a ministerial decision that switched the rules in mid-game hurt efforts by officials to woo new foreign investment. Yet it proved a salutary lesson: before introducing legislation for a deposit guarantee fund, which would help support weak nationalised banks at the expense of foreign or private institutions, the authorities solicited the opinion of the new banks. The verdict on the fund was negative, and as a result it seems to have been put on ice.

In increasingly important areas like the developing interbank and foreign exchange markets, foreign banks are showing further concern.

When the treasury bill and foreign exchange markets started the eight nationalised banks, inexperienced and fearful of foreign competition, tried to form cartels which were soon broken up by the foreign banks. Still fighting against the foreign invader, the Portuguese banks started underpricing daals, helping the state to finance its deficit, and corporate customers to make foreign exchange deals at rockbottom rates—all on fiercely squeezed *margins*.

Lavish margins faded away

With a central bank discount rate currently at 15.5 per cent (4 per cent over inflation), Portugal's relatively high interest rates are falling. For foreign banks, the lavish margins and interest rates on short or medium term loans of close to 30 per cent in 1985, have faded away. They must now chase business, and must constantly offer new products to outdistance the nationalised banks, which are learning fast.

Bonanzas like Manny Hanny's 50 per cent return on capital in its first year are unlikely to be repeated. The newcomers are looking forward to the 1990s when the EEC transition period ends and Portugal's market will have to liberalise further and to learn to live with less ministerial tutelage.

Brunei tightens grip on LNG output

BY STEVEN BUTLER IN BANDAR SERI BEGAWAN

THE BRUNEI Government, which has been fully independent for just two years, has taken a significant step towards controlling the exploitation of the country's natural resources, with the purchase last week of majority shareholdings in two big liquefied natural gas ventures.

The share purchases in Brunei LNG and Brunei Coldgas follow two years of complicated negotiations with Royal Dutch/Shell and Mitsubishi. The two big foreign partners each previously held a one-third stake in each project, and the Government has bought shares in equal measure from both. No price has been disclosed.

The Government also announced the formation of a new company, Brunei Shell Tanker, a 50-50 joint venture with Shell Tankers. The new company has purchased seven 75,000 square metre capacity LNG tankers from Shell Tankers. The tankers are used for the transport of LNG to Japan, and they will continue to be managed by Shell Tankers under contract.

The Government said that while the 50-50 ownership of Brunei Shell Petroleum was unaltered, a restructuring of arrangements between Shell and the Government will result in greater use of services supplied within Brunei. Brunei Shell Petroleum explores for and produces oil and gas in Brunei, and operates a 10,000 barrel per day refinery.

The impetus for the changed ownership of the LNG companies cama from the anticipated expiry of a 20 year LNG supply contract with Japan in 1993, under which Brunei exports 5m tonnes of LNG per year.

The Government said the new arrangement would provide a "secure and stable foundation" upon which the company would continue to export gas after the current contract expires. The Government evidently made restructuring the companies a condition for continuing the contracts.

Brunei's production of crude oil is expected to average 165,000 barrels per day this year. Gas sales are expected to average 750m standard cu ft per day.

JOBS

How organisations lose touch with reality

BY MICHAEL DIXON

"BEWARE," said the poster in big red letters.

The sketch below showed a bespectacled pin-striped gent with bowler hat, rolled umbrella and official briefcase. He was looking indignant. Trying to whisper in his ear was another man, bare-headed and dressed not unlike a typical taxpayer. Under the sketch were the words:

"People outside your department may sometimes ask you for information about your work. Do not answer them!"

The poster just described was prominently on show in the offices inhabited by Britain's Department of Education and Science in the late 1960s. When the department later moved to new premises the poster was evidently left behind. I don't know whether it is still displayed in the old building, which now reputedly houses MI5.

But if the American historian Arthur Schlesinger is right there never was nor will be need for a warning like that to be displayed in the offices of bureaucracies, governmental or otherwise. For he claims that while the staff of such organisations will leak information if they think it helps their cause, in other respects their urge to keep things secret is more than just an instinct. "Covering up," he says, is the "bureaucratic imperative."

His words ring so true that the urge for secrecy and its not always productive consequences seem to cry out for inclusion in the laws of organisational stupidity, the first 16 of which were outlined in this column on September 4 and October 29.

My inquiries into the "imperative," and its associated concentration on appearance to the neglect of reality, persuade me that its root lies in the idea that bureaucracies are an evolutionary stage above other types of organisation.

The doings of the more primitive kind tend to be determined by the judgments of fallible human individuals whose hearts are apt to rule their heads. But bureaucracies are supposed to operate according to virtually scientific principles and procedures laid down in advance, which their staff need only to follow precisely and dispassionately to do their jobs.

As a result they become so preoccupied with the operations of the internal system that they assume that its rules apply everywhere. Provided they are following the ordained procedures, no one outside the organisation has a right to interfere. In short, they become autistic: cut off from, if not contemptuous of, the external world.

Hence the law of organisational stupidity entitled the Bureaucratic Blinder. It says: Contact with reality decreases as impersonal rules replace individual responsibility.

An example of how the law's effects can riddle an organisation from top to bottom has been presented to me over the past few days by British Rail.

The saga began when I arrived at my local station three minutes early for my train to work—a journey scheduled to take under half an hour. Since reporting staff on morning newspapers start and finish later than most people, I qualify for a return ticket at a cheap rate. The booking office has two ticket windows. Only one was open although rail workers were standing around inside apparently doing nothing and a lengthy queue was waiting to be served. About six of us were still without tickets when the train drew in, most unusually, on time.

On arriving at London's Cannon Street station I asked to be supplied with the return ticket I had been unable to obtain at the outset. But the official at the station barrier replied that I could not have the cheap rate because "not having time to get a ticket is no excuse."

Since no one had said such a thing to me since my school days, I was somewhat nettled. So I wrote to Mr Chris Green, the head of the relevant section of British Rail who is reputedly an expert in marketing and communications, inquiring why he had not communicated to his staff that the customer needs no excuse.

A fortnight later I received a reply, not from Mr Green himself, but from the regional customer services manager. He explained that, except on Monday mornings, only one ticket window was open at my local station "as this is appropriate for the usual demand." The "revised excess fare arrangements, which have been widely advertised" banned the issue of cheap returns to passengers failing to get them at their starting point unless the station was not issuing tickets at all.

If I felt that the ticket queue was excessive, I might appeal with the facts to the local area chief for a refund. Otherwise, while the customer services manager could not condone the barrier official's rudeness in telling me that not having time to get a ticket was "no excuse," the fact was that it was no excuse.

There could surely be few better instances of the Bureaucratic Blinder in operation. The reality is that the accustomed procedures of British Rail do not enable it to provide an efficient ticket-sales service. But since—when viewed from the inside—the internal rules cannot be wrong, the only way to counter the inefficiency is to cover it up by ruling that it is the external world's fault.

The trouble is that, although it is evidently very easy for organisations to become subject to the law, they do not seem to be able to get free of it without considerable pain.

Oddly enough, just before the ticket saga I was talking to the personnel director of one concern which appears to have escaped: Jaguar Cars. He said that the company as a whole had now learned that the external customer's wants override internal convenience, but only at the price of losing 40 per cent of the workforce. One wonders how much it will cost British Rail to absorb the same lesson.

Go getter

HEADHUNTER Tony Nevile seeks a director of business development for an international financial group with more than 200 offices in 50-plus countries. As he may not name his client, he promises to abide by any applicant's request not to be identified to the employer at this stage.

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Inquiries to Anthony Nevile International, 31 Castle Street, Farnham, Surrey GU9 7JB; telephone 0252 711311, telex 858902 Baron G.

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THREE ASSORTED management consultants are wanted for the staff of the Cardiff-based IMC consultancy. One will specialise in marketing executive selection services as well as personally providing them. The second will do the same in the management development field. The other will be a general management consultant with particular strength in finance. Candidates should have successful experience in similar work.

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Those who wish to apply should write, enclosing a curriculum vitae, to Alexander Campbell, Manager, Swiss Bank Corporation International Limited, Three Keys House, 130 Wood Street, London EC2V 6AQ.

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Whilst interviews will be held in London, in the first instance, please write with personal and career details, including current salary, to: A. G. Beaumont, Group Management Development Department, Courtaulds PLC, PO Box 16, Foleshill Road, Coventry CV6 5AE.

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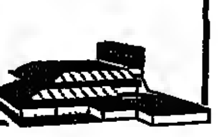

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Wednesday December 10 1986

When markets go offshore

IN THE aftermath of the Levine and Boesky insider dealing scandals on Wall Street it is inevitable that attention should focus primarily on moves to tighten up securities regulation in the US. There is, however, an important international dimension to the regulatory issues that are now being raised in the US Administration and in the Congress.

One specific concern relates to the use of off-shore financial centres for the purpose of concealing insider dealing activity; the wider questions are to do with the way in which Boesky and others had extended their arbitrage operations into other securities markets across the globe, not least in the case of Guinness's recent bid for Distillers where share dealings are now being investigated by Department of Trade inspectors.

Both points serve to underline the importance of recent bilateral accords between the US and a number of other countries including Britain, Switzerland and the Cayman Islands governing the confidential exchange of information on insider trading and other forms of misconduct in the securities markets. And they highlight the significance of the meeting being held in London this week between securities regulators from the world's main capital markets.

Wider range

The meeting is not, in fact, a direct response to the latest bout of scandals on either side of the Atlantic. It was called back in July, before the British Department of Trade and Industry had signed its memorandum of understanding on information exchanges with the Securities and Exchange Commission and the Commodity Futures Trading Commission. The invitations also went out well in advance to the public revelations about Mr Boesky and Mr Geoffrey Collier, late of Morgan Grenfell in London, who now faces charges of insider dealing in Britain.

Moreover, the agenda covers a far wider range of issues than insider trading. Officials will be discussing the scope for international co-operation in several of the areas covered by the recent US-British accord, including criteria for establishing the honesty and competence of those who enjoy access to markets. Much of the emphasis will be on prevention, as well as cure.

All this is welcome, since it implies a recognition of the need for a genuinely international approach to regulation in a world where technology and a political commitment to liberalisation in capital markets have made a nonsense of national boundaries. The more so, since the London meeting brings together for the first time officials from Japan, West Germany and Switzerland, as well as Britain and the US.

Yet it would be unwise to place excessive expectations on the outcome, because national attitudes and laws on securities conduct vary hugely. There are considerable differences in the institutional arrangements for securities regulation, arising from a different mix of statutory and self-regulation in individual countries. Above all, there are profoundly different national interests at stake in the extent to which international co-operation is seen as beneficial.

Staging post

If, for example, the Boesky affair leads to much tougher regulation in the US than elsewhere, it is possible that other countries' securities markets will stand to benefit as business is driven off-shore. Certainly the City of London has benefited in the past from the more restrictive regulatory climate that applies in US banking; it could benefit more in future if, for example, the present climate in the US leads to the preservation of the Glass-Steagal Act, with its clear distinction between commercial and investment banking.

The lack of such restraints on conglomeration in London constitutes a marked attraction for those US banks that wish to service their clients' desire to issue tradeable paper.

The British and American decision to pursue bilateral accords, initially, is thus almost certainly realistic. In the longer run, however, a multilateral forum is undoubtedly needed; and this week's meeting could make a small step in the right direction by deciding whether the OECD, the International Association of Securities Commissions or some other body should do the job. In the meantime the chief priority for the British should be to establish a bilateral agreement with the Japanese, which would represent a start in knitting together the three largest securities markets in the world. The London meeting is a useful staging post on a very long road.

The Turks at the gates

TURKEY under its reforming Prime Minister, Mr Turgut Ozal, intends to apply soon for full membership of the European Community. Once received, that application will force the Twelve to confront some delicately poised decisions.

As a European power, even though the bulk of its land and people are in Asia, Turkey has a claim to membership under the Treaty of Rome. Moreover, that claim was recognised explicitly at least in principle by the agreement associating Turkey with the Community, concluded in 1964.

On the world political scene it would be nothing short of disastrous for the West if a rebuff to Ankara were seriously to weaken Turkey's links with the western alliance. Turkey is the south eastern anchorman of the North Atlantic Treaty Organisation and has a strategically crucial role to play on the borders of the Soviet Union. There is no real answer to that, unless one were to take seriously the occasional hint from Ankara that Turkey might consider a realignment of its foreign policy.

Finely balanced

On the Turkish domestic stage it can be argued, as was done in the cases of Greece, Spain and Portugal, that admitting the country to the Community would strengthen the cause of democratic government and of human rights in Turkey. It is an argument of much weight.

On the economic side, the arguments are much more finely balanced. It is evident that, with the possible exception of its textile plants, Turkish industry lacks the strength to compete with its rivals in the Community. Though Mr Ozal has done much to ginger up Turkish enterprise by cutting subsidies and encouraging competition, the situation is not yet fundamentally altered since 1978 when Turkey ceased to cut tariffs against Community imports as the association agreement would have required. On the other hand a dynamic economy such as that of Turkey, with growth around the 6-7 per cent mark annually, could give the Community a much-needed fillip.

A judgment is required of what Turkish membership would mean to the internal workings of the Community. The addition of another mainly agricultural country would make even more acute the strains on the present Common Agricultural Policy, or on any successor policy that might conceivably be accepted by the present membership. No less important, the Community has only just digested its original enlargement by the accession of Britain, Denmark and Ireland. As for the later entrants, Greece has become the Community's awkward member, and the enrolment of Portugal and Spain at the beginning of this year will call for many adjustments.

On top of that, the historic hostility between Greece and Turkey, which is regularly stoked up by the Cyprus conflict, would bring increasing difficulties in a Council of Ministers where both countries had a seat. As it is, Greece has stymied progress in the Council of Association which links Ankara with the Community. Some members of the Community may silently hope that Greece will continue to paralyse any serious negotiations on Turkish membership.

That may be good tactics, but bad strategy. The Community apart, it has long been in the interests of both Ankara and Athens, properly seen, to settle the Aegean and Cyprus conflicts. Neither side stands to gain much except chauvinist plaudits. The unsettling effects of the dispute upon the West are great.

The Community cannot shirk its commitment in principle to listen to a Turkish application for membership and eventually, provided the terms are right, to admit Ankara. Before that consummation Turkey will have to go on demonstrating that its democracy is here to stay and that Mr Ozal's economic clean-up has worked. In the meantime the Community could show its goodwill by unblocking aid outstanding to Turkey; by rescinding restrictions on imports, above all of textiles, from Turkey; and by honouring its undertaking to liberalise rules governing Turkish migrant labour. The Turks need to be made to feel wanted.

aMcmth shrd shr sh sh shrdlu

PRIVATISATION IN EUROPE

Best-seller with a choice of endings

By Guy de Jonquieres, International Business Editor

IF POLITICAL ideas could be copyrighted like popular novels, Mrs Margaret Thatcher's Government would today be well on the way to achieving a runaway international best-seller.

Britain's pioneering experiment in privatising state-owned assets has become a worldwide trend, which is rapidly gathering momentum under governments of both right and left-wing persuasion in countries ranging from the dirt-poor to the super-affluent.

In Western Europe, privatisation programmes of one kind or another are planned or under way in about half-a-dozen countries. Enthusiasm has spread to countries and regions as disparate and far-flung as Japan, India, Latin America, Canada, Africa and even to China and the Soviet Union.

No one reason explains the sudden popularity of privatisation. Budgetary constraints, disenchantment with the performance of nationalised industries, reactions to over-centralisation, stiffer international competition and emphasis on more entrepreneurial management have all contributed to a growing awareness that the rules governing state intervention in the economy need to be re-written.

The phenomenon has also been encouraged by favourable economic and financial conditions. Stable growth, buoyant stock markets and robust corporate and institutional liquidity in most industrialised countries, as well as the internationalisation of capital markets, have made it easier to find buyers for state-owned enterprises.

Lofty goals are often tempered by expediency

But while the overall theme may be similar, treatment of the plot and the motives of the leading characters vary considerably from country to country.

To start with, the term itself has several meanings. For purists of the Thatcher school, it is unlikely to mean less than the transfer of a clear majority of shares and voting rights to private investors. In other countries, notably Italy and Spain, privatisation is commonly used to describe the sale of minority stakes in enterprises which remain firmly under state control.

Another variant is the agreed merger between a publicly-owned enterprise and a private partner. Recent examples include the takeovers of Spain's Seat car group by Volkswagen and of Italy's Alfa Romeo by Fiat.

Neither deal grew out of any special belief in the intrinsic virtues of private ownership—Volkswagen is itself partly government-owned. The overriding motive was industrial rationalisation, spurred by the need to achieve economies of scale at Seat and Alfa which only bigger and stronger partners could provde.

There is also a philosophical divide between those European countries driven by s belief that the state ownership system needs to be chopped back to its roots, and those which think it merely needs some judicious pruning and retraining.

Foremost in the first camp are Britain and France. Not only are their privatisation programmes the most extensive in Europe, but their declared aim is to effect a sweeping and irreversible shift in the structure of their national economies in favour of free enterprise capitalism.

These lofty goals are also tempered by expediency. As well as raising cash, privatisation is geared to reaping practical political dividends. In France as well as in Britain, wider share ownership is being actively promoted partly in an attempt to tie the hands of—or still criticism from—left-wing critics of privatisation.

There are, nonetheless, differences between the two countries. Due to the wave of nationalisations since 1981 the state sector in France is about 30 per cent of gross domestic product—among the highest in Europe—compared with less than 12 per cent in Britain when the Thatcher Government was first elected in 1979. (It is below 8 per cent today.)

France has also committed itself at the outset to a much more systematic disposals schedule. It aims in the next five years to raise some FFr 200bn (£21.4bn) by selling off its holdings in 20 groups, comprising some 65 companies, at the rate of four a year. Shares in the first group, glassmaker Saint Gobain, went on sale last month.

Though involved in a wide range of businesses, almost all the companies are operating in sectors open to keen domestic and international competition. France has no plans yet to follow the UK example in selling monopoly utilities such as British Telecom and British Gas, which together account for almost two-thirds of the £14bn which privatisation has so far raised for the Treasury.

This is partly due to the fact that the French Government already has its privatisation plate full. But it is also under no immediate pressure to seek radical solutions for its older nationalised monopolies, many of which offer standards of service superior to those in Britain.

Even critics of the post-1981 nationalisation round concede that the effect on the companies involved has been far from paralysing. Almost all are now profitable and several major industrial groups such as Bull, Thomson and Rhone-Poulenc are in better financial shape than five years ago, having been re-capitalised and given a fairly free hand to rationalise loss-making businesses and shed excess labour.

In many other parts of Europe, privatisation has been less a matter of political choice than of financial necessity. This is particularly true in Austria, Italy and Spain, where mounting losses have forced the big national holding companies to embark on swingeing restructuring and management shake-ups.

In Italy, IRI, the country's largest state holding company, has raised more than L5,000bn (£2.5bn) in the last three years by selling stakes in subsidiaries to private investors. Its Spanish equivalent, INI, has sold off several companies or parts of companies and last month successfully floated 38 per cent of GESA, an electrical utility on the stock market.

Raising cash is only one objective. Both IRI and INI also say stock market quotations enhance the commercial profile of their operations. In Italy, another important attraction of private shareholdings is that they may deter self-interested meddling by national and local politicians, a perennial curse of most of its state industries.

However, IRI and INI still see a compelling industrial logic in retaining firm control over all their main holdings, especially those in sectors regarded as of "strategic" national importance. For both groups, complete privatisation applies largely to businesses which are marginal to their main interests or which they can no longer afford to support.

Professor Romano Prodi, who has produced a remarkable turnaround at IRI since he became its chairman three years ago, is adamant that his mission is to reform state ownership, not destroy it. "European economies have become like Starfighter aircraft, too much has been loaded on them," he says. "Take off a couple of rockets and they fly well again. But Mrs Thatcher wants to take off all the rockets, so the aircraft never hits its target."

This colourful simile perhaps gives the UK credit for a greater commitment to laissez-faire than it has shown in practice. The Government has taken care to keep the power to block takeovers of several major privatised companies such as British Aerospace, Britoil and BT, by means of special "golden" shares, and limits on maximum holdings. France also plans to use "golden" shares in addition to restricting foreign investors to 20 per cent of initial equity issues.

West Germany's approach to privatisation combines elements of both free market ideology and statism. About DM 1.6bn (£561m) has been raised since 1984 by selling federal government holdings—which involve interests in a total of some 400 companies—and a dozen further candidates have been lined up for sale after next year's elections.

But the programme, launched as part of a wider effort to trim subsidies and regulation, is modest by UK or French standards. It would still leave the federal government with sizeable residual shareholdings in many commercial companies and excludes the big and highly bureaucratic telecommunications and railway monopolies.

Political opposition could yet derail or slow the progress of privatisation in other parts of Europe, too. Professor Prodi, whose efforts to sell off IRI's SME food subsidiary were blocked by the government last year, admits that he still has to tread carefully. In France the loss-making Renault car group is not due to be privatised because, as one banker puts it, "the unions would never stand for it."

In the next 18 months, both Britain and France face national elections which, if they resulted in victories for the Left, would be likely to halt further asset sales. How far the process might then be put into reverse, though, is uncertain.

How much ownership really matters in determining companies' performance is another question. In the words of the current Amex Bank review: "While there is a widespread feeling that privately owned companies are more efficient than government enterprises, it is harder to prove than might be expected."

Many in France also question the government's belief that privatisation will end a tradition of dirgisme which has long flourished under administrations of all political colours. "It will require a real sacrifice

Privatisation benefits hard to prove

by the state to cut the umbilical cord of intervention," says Mr Armand Lepas, chief economist at the Patronat, the French employers' association. "Privatisation is a necessary condition, but I'm not sure it's enough."

The Amex Bank review suggests that imminent privatisation increases the pressure on companies to restructure and increase profitability. But it also expresses doubts about how much private ownership, particularly if very widely spread among small investors, stimulates the efficiency of monopolies.

Furthermore, by retaining "golden" shares or blocking minorities in privatised companies, governments obviously shield managements from the threat of hostile takeovers, which can provide one of the most powerful incentives to perform.

Several economists argue that market liberalisation which exposes European companies to keener international competition and affords them scope to expand may provide a more decisive and durable stimulus to growth and efficiency than will a simple transfer of ownership to private hands.

Actions to lower barriers to trade, harmonise standards, relax exchange controls and reduce regulation have recently begun to gain momentum at both the EEC and national level. In the longer-term, the real test of Europe's privatisation drive is likely to lie in its effectiveness in equipping industries to exploit the opportunities created by these trends.

LEVELS OF PUBLIC OWNERSHIP

More than 75% · 75% · 50% · 25% · Less than 25%

	Posts	Telecoms.	Electricity	Gas	Oil Production	Coal	Railways	Airlines	Motor Industry	Steel	Shipbuilding	
AUSTRIA	More than 75%	More than 75%	More than 75%	More than 75%	More than 75%	More than 75%	More than 75%	More than 75%	More than 75%	More than 75%	NA	AUSTRIA
FRANCE	More than 75%	More than 75%	More than 75%	More than 75%	NA	More than 75%	More than 75%	75%	50%	75%	Less than 25%	FRANCE
W. GERMANY	More than 75%	More than 75%	75%	50%	25%	50%	More than 75%	More than 75%	25%	Less than 25%	25%	W.GERMANY
NETHERLANDS	More than 75%	More than 75%	75%	75%	NA	NA	More than 75%	75%	50%	25%	Less than 25%	NETHERLANDS
ITALY	More than 75%	More than 75%	75%	More than 75%	NA	NA	More than 75%	More than 75%	25%	75%	75%	ITALY
JAPAN	More than 75%	50%	Less than 25%	Less than 25%	NA	Less than 25%	75%	25%	Less than 25%	Less than 25%	Less than 25%	JAPAN
SPAIN	More than 75%	50%	Less than 25%	75%	NA	50%	More than 75%	More than 75%	Less than 25%	50%	75%	SPAIN
SWEDEN	More than 75%	More than 75%	50%	More than 75%	NA	NA	More than 75%	50%	Less than 25%	75%	75%	SWEDEN
UK	More than 75%	Less than 25%	More than 75%	Less than 25%	Less than 25%	More than 75%	More than 75%	75%	50%	75%	More than 75%	UK
US	More than 75%	Less than 25%	25%	Less than 25%	Less than 25%	Less than 25%	25%	Less than 25%	Less than 25%	Less than 25%	Less than 25%	US

Source: AMEX Bank Review

Brana Radovic

Men and Matters

Lloyd's pocket money

Even in these days of soaring City salaries, the people who regulate London's financial community can make almost as much money as the brokers and bankers whom they regulate.

The latest evidence of this came yesterday when the ruling Council of Lloyd's, the insurance market, broka with recent tradition and announced that its nominated members are to get an annual fee of £8,000, starting from January 1.

Ons of the four men concerned—whosa job it is to cast an expert outsider's eye on the market's working—is Alan Lord. As chiaf executive of Lloyd's, he is a full-time employee and will not be benefitting from the extra pocket money.

But another is Sir Kenneth Berrill, the City's new top watchdog in his role as chairman of the Securities and Investments Board. The £8,000 will come on top of tha £110,000 he already gets at the SIB. The other two nominated members of the council of Lloyd's for 1987 are Alan Hardcastle, a partner at Peat Marwick, the accountancy firm, and Edward Walker-Arnott, of Herbert Smith, the solicitors.

Air time?

It looks as though the daily airship flights over London last summer by Alan Bond's Airship Industries craft caught the attention of earth-bound government ministers.

The company, which a year ago felt it was working out in tha cold without real interest from either the civil or military aviation authorities in Whitehall, now finds itself the object of much tender loving care from official circles.

Airship Industries is now competing in a two-horse race with Goodyear of the US to build a $200m airship for the US navy as an all-weather radar platform to hover 10,000 feet above the fleet.

Generous British government help is being given to the Bond company to help sell its design to the US navy. Mrs Thatcher has not yet flown in the airship, but her husband Denis has inspected the production and design facilities.

Bond, at the company's AGM, has thanked the British government for total support in his bid to capture the biggest airship contract ever put out to tender.

If Airship Industries is chosan it will collaborate with US electronics specialist, Westinghouse.

Game show

Merchant banks, of course, have their place in the financing of European films and television programmes. But Gust Graas, director general of Radio Television Luxembourg has been telling politicians and broadcasters at a Council of Europe conference in Vienna that there is another weapon for holding American cultural imperialism at bay—TV-TOTO.

Graas wants the whole of the Eurovision network to be thrown open once a week to a game show played by international personalities, complete with a lottery for viewers. The proceeds would go to fund European production.

"It would make millions," says Graas, one of Europe's leading private broadcasters.

He claims the European Commission is enthusiestic abont the game—based on coloured would like to see it introduced shapes rather than words—and as part of the 1988 European Television Year.

Graas is now trying to persuade the European Broadcasting Union that a television Euro-lottery is a good idea—if ba succeeds, then the only obstacle would appear to be the legality of such a lottery in each country.

What does Alasdair Milne, director general of the BBC, think of the idea? "Not much," Milne commented laconically in Vianna.

Taxing times

Jokes may come and jokes may go, but jokes about the taxman go on for ever. The Inland Revenue Staff Federation has been busy proving that in the final adition of Taxes, a journal of the union which dates from 1912, but which is now making way completely for the union's monthly Assessment newspaper.

Apart from extremely youthful—and, no doubt, embarrassing— photographs of current IRSF leaders, the final edition of the magazine contains a selection of what the union describes as the "bitter humour of the irate taxpayer."

Take this example, a 1962 reply to a request for a taxpayer's birth cirtificate: "No birth certificate is available, and no information apart from the fact that be believes it was something to do with Wandsworth Common."

Or this 1931 extract from a claim for expenses: "One dog to keep, 4s weekly. One mother-in-law to keep, 2s 6d weekly."

Or a 1916 reply to a tax office query about exemptions under a new tax limit: "Dear Sir, Mr —— was a bachelor and always was. He waa found hanging from a rafter in my kitchen about four years ago. He bad two children to whom bs left his property. I do not know where they live. He died in comfortabla circumstances."

As a postscript to the potted history of Inland Revenue jokes, this 1962 letter from a taxpayer, enclosing a remittance: "Your pound of flesh attached. Do yon pull wings off flies, too?"

"Certainly I'll tell you what I think of the whole damn lobby system—off the record

Yen to entertain

Japanese businessmen spent a record Y3,850bn (£16.6bn) on entertaining their customers last year, according to a survey *by the National tax administration* agency.

It mey sound like an almighty binge. But, divided among 1.6m companies nationwide, it works out at a modest £10,000 or eo for each company.

And business income increased rather faster than entertainment expenses—to a record Y992 trillion (million million) or around £4.2 trillion. (If I've got all those noughts right.)

Life insurance companies and medical corporations topped the hospitality list, spending about Y9m (£38,800) on average apiece.

An election year added to company expenses. Political and other donations rose by 6.5 per cent to a record Y285bn. Bnt in Japan the palate clearly still holds sway over politics.

Tailpiece

The Japanese chain stores group Shiseido is selling disposable nappies called Ping Pong Pants.

Observer

FINANCIAL DEREGULATION

The perils of innovation

"We are throwing more and more of our resources, including the cream of our youth, into financial activities . . . that generate high private rewards disproportionate to their social productivity. . . . The immense power of the computer is being harnessed to this 'paper economy,' not to do the same transactions more economically but to balloon the quantity and variety of financial exchanges."

PROFESSOR James Tobin, the 1981 Nobel economics laureate, made these comments in his Fred Hirsch lecture in 1984 when "Big Bang" was still a distant prospect and before unease about financial markets became so fashionable. He argued that the US could not afford "all the markets that enthusiasts might dream up" and that it might be economically inefficient to sanction new "opportunities for speculation and financial arbitrage."

But, with France and Japan seemingly convinced that they must follow the trail blazed by the US and the UK, what, precisely, are the pitfalls of financial-sector growth and innovation? After all, industrial innovation—whether of the process or product variety—is almost universally regarded as of benefit to all. What is different about the financial sector?

Why, for example, is concern voiced when expensive syndicated loans are superseded by cheaper securitised credit? Why do the Bank for International Settlements (BIS and other watchdogs gnash their teeth and worry about the "under-pricing" of new-fangled instruments? In industry such margin-shrinking competition would be applauded. How can the removal of controls and innovation in financial markets do anything but good?

The answer, according to some Jeremiahs, is that financial markets are "different." The prosperity of the post-war international economic order was built around Gatt-inspired free trade in goods. However, this liberal trading system rested on quite stringent controls on the financial system: pegged exchange rates, credit and interest rate ceilings, tight limits on international capital mobility, and strict demarcation lines for financial institutions. The financial controls and the marked strengthening of the powers of regulators were a conscious reaction to what was seen as the damaging laissez faire of the inter-war period.

A hypothesis, as yet unproven, is that fully competitive goods and financial markets may not be compatible. Free trade in goods and services requires business confidence which in turn requires a reasonable degree of predictability in financial affairs. Global capital mobility and the deregulation of financial markets seems to have made this goal more elusive than ever.

Financial innovation in the UK and the US has, at least temporarily, utterly undermined monetary policy. The authorities no longer know how to define money and certainly have little idea how to control a given aggregate, or even whether it needs controlling. It is possible in Britain that interest rates have been at the "wrong" levels for several years, mainly because of the difficulty of interpreting extraordinarily rapid credit growth. The cost to the industrial economy of excessively high and volatile real interest rates could easily swamp the putative micro-economic efficiency gains from deregulating financial markets.

The problem runs deeper, though. The touted remedy for monetary uncertainty is greater reliance on exchange rate targets and mechanisms such as the EMS. But, as Professor Charles Goodhart of the London School of Economics (and formerly Bank of England), has stressed, the very factors that have undermined monetary targets have also undermined exchange rate management.

Global capital mobility and financial innovation have contributed to the greatest instability of exchange rates ever experienced. Few major currencies have ever been as adrift from fundamentals as were sterling in 1980-81 and the dollar in 1983-85. The EMS has been comparatively tranquil because it contains only one main currency (the D-mark), because it has been buttressed by capital controls (now being dismantled), and because member countries have been slow to join the financial innovation bandwagon. Rather than representing a brave new world of orderly, deregulated financial markets, the EMS is a benign throw-back to the pre-1971 era of controls.

Financial innovation thus threatens liberal trade in goods in two ways. With free movements of capital, monetary policy operates, if at all, through the exchange rate: the tradeable goods sectors thus provide the "front-line troops"—bearing the brunt of appreciation as policy tightens, as the US and UK have discovered to their cost in the 1980s. But the protectionist forces thus unleashed are magnified because exchange rates, driven by capital flows, are unstable and liable to veer away from competitive levels.

Economists also argue that liberalisation may have raised the risk of serious financial disorder. The creation of countless new instruments, traded in vast volumes mainly off-balance sheet, has left the authorities lacking the information required to judge whether the macro system is stable.

Individual institutions may have seemed to reduce their risks by diversifying their businesses—for example, banks by purchasing stockbrokers—but, in the system as a whole, risk has merely been shuffled around. The greater integration of markets and institutions implies that failure of one component could have more far-reaching consequences; especially since the authorities, while accustomed to extending emergency support to banks, are no longer certain what class of institutions should now, in effect, qualify for "lender-of-last resort" facilities.

At the same time, the explosion in the use of computers and other sophisticated hardware leaves many firms struggling to gauge the scale of the risks being taken, in their name, by quite junior employees. Few chief executives possess PhDs in pure mathematics; how then to control the backroom boys?

The real worth of many of the new products is anyway doubtful. As the BIS report notes: "Innovation has certainly not improved capacity to predict the long-term future." Dr Ian Black, of the London Business School, points out that it is an "illusion" to believe that even the most sophisticated products, such as options, offer genuinely new ways of reducing risk.

The scale of the transfer of resources to financial services is also under fire. Professor Tobin argues that "very little of the work done by the securities industry, as gauged by the volume of market activity, has to do with the financing of real investment." He argues that the sector shows all the hallmarks of monopolistic competition—high and rising advertising expenditure and institutions clustered together, like gas stations around intersections. Firms are trying to differentiate almost identical products, and it is known that in such circumstances output can be much higher than is socially optimal.

And in the winter issue of the Oxford Review of Economic Policy, Dr Colin Mayer of St Anne's College, Oxford, raises another worry: the fact that unbridled competition in financial markets may easily lead to an excessive devotion of resources to information collection: "Discovering something that others do not know allows an individual to trade to his benefit at the expense of others. Thus the private benefits to being informed may be well above the social."

In other words, the research teams of Goldman Sachs and Salomon Brothers, from a social point of view, cancel each other out. The one makes the other necessary, but only to different groups of private investors.

Scepticism about the need either for innovation or for a massive transfer of resources to the financial sector is increased by a glance at West Germany. It may soon be persuaded to introduce "reforms"; but it has so far succeeded admirably with what, to Anglo-Saxon eyes, looks like a remarkably primitive financial system.

It is, as the OECD pointed out in its latest economic survey, a country where only one in 1,000 businesses operate as public limited companies, where only a fifth of those that do have a stock exchange listing, and where a mere 30 shares are traded actively. The number of plcs has actually declined in the past 20 years, while the number of private companies has increased five-fold.

Small, orderly and unadventurous financial markets may be dull; but they lend stability to monetary policy and reassure industrialists.

It is too easy to lose sight of the fact that financial services, like money itself, are not useful or desirable in their own right. They are only a means to an end — the production of the real goods and services which people actually need.

Michael Prowse

UK long-term unemployment

An investment that the nation has to afford

By Richard Jackman

THERE ARE now just under 1.35m people who have been out of work for more than a year. By way of contrast, the *maximum* recorded number of long-term unemployed people in the Great Depression was just under 500,000 (in 1933) while the *minimum* in the post-war period was as few as 20,000 (in 1956).

There are a number of popular, but fallacious, explanations of the growth in long-term unemployment. Long-term unemployment is *not* due to the working attitudes of the young. Among men, teenagers have the lowest rates of long-term unemployment, while 45-60 year olds have the highest. The long-term unemployed are *not* all unskilled labourers left behind by the advance of technology. On the contrary, over half used to work in skilled manual or non-manual jobs. Nor is long-term unemployment simply a problem of the North-South divide. While unemployment rates are higher in the depressed regions, there are over 250,000 long-term unemployed people in the South-East. Long-term unemployment is *not* the exclusive responsibility of Mrs Thatcher. Most other European economies have also suffered large increases in long-term unemployment, particularly since 1979.

These facts are set out in an Employment Institute pamphlet published today.* The long-term unemployed, it says, are ordinary people who find themselves, as a result of their experience of unemployment, unattractive to potential employers and unable to get work. Most have held regular jobs in the past. The reluctance of employers to hire them is, to that extent, irrational. Action is needed to overcome the inertia and get the long-term unemployed back to work.

For action to be effective, it must involve a specific commitment: the guarantee of a job offer to every long-term unemployed person. This idea which was suggested earlier in the year by the House of Commons Employment Committee,† has been followed up in the pamphlet.

The basis of the job guarantee is to offer long-term unemployed people ordinary jobs with ordinary employers. There would be a building improvement programme, designed to finance schemes where private building contractors took on long-term unemployed people to repair and improve housing and the infrastructure. There would also be (smaller) schemes in the health and social services. There would be additional provision of training. And, outside the specific schemes, any employer recruiting a long-term unemployed person would receive a payment of £40 a week for a year. This general recruitment scheme would initially be restricted to the very long-term unemployed (for more than three years) but as long-term unemployment fell it would become generally available.

Thus, the job guarantee is about real jobs. The need for the money is to overcome the reluctance of employers to hire the long-term unemployed for such work, not to prop up artificial or unproductive activity.

The gross cost of a job guarantee scheme sufficient to reduce long-term unemployment from its present level of 1.35m to around 500,000 is estimated to build up to £4.2bn in a full year. But the net cost to the Exchequer would be very much less. On our estimates it could be as little as £1.8bn. The reason the net cost is so much smaller than the gross is largely because of the savings in supplementary and housing benefits paid to the unemployed (which now average around £60 a week), as unemployment falls as a result of the scheme.

But how can we be sure that unemployment in aggregate will fall? Clearly, particular projects will provide work for particular people but what of the effect on the overall unemployment rate? There are two worries here. First, anything that increases the demand for labour may create, or intensify, shortages in parts of the labour market and hence add to inflationary pressures. Whatever the merits of this argument in general, in current circumstances it does not apply to the long-term unemployed. Bringing them back into the labour force will increase the availability of labour and thus, if anything, tend to reduce the risk of inflationary labour shortages in the long run.

The second main worry is that providing jobs for the long-term unemployed will simply take jobs from others. But this displacement hypothesis assumes there is a fixed number of jobs available in the economy. The alternative view is that the number of workers available, and that new jobs will be created by the normal workings of the market system.

Despite its net cost, the job guarantee is an economically efficient investment for two reasons. First, the work experience the long-term unemployed acquire as a result of being back in work will build up over time and improve the overall efficiency and productivity of the labour force. Second, many of the schemes, particularly in the building improvement programme, will provide much-needed infrastructure investment.

To see how a job guarantee programme works in practice we have to look to Sweden, where such a guarantee now forms part of a wide range of special employment measures. The overall cost of these measures in Sweden is comparable to our estimates (relative to GDP) for the UK. As a result, in large part, of its extensive programme of special employment measures Sweden has a very low unemployment rate (3 per cent) and one of the best-trained and most productive labour forces in Europe. The Swedish experience shows that a job guarantee need be no enemy of economic prosperity.

In a competitive world, the success of a trading nation depends primarily on the skills and enterprise of its working people. No nation can succeed if millions of its workforce are not pulling their weight but instead are left idle and a burden on others. The long-term unemployed can be brought back to work. To do so requires a substantial investment, but it is, nonetheless, vital. It is an investment that the nation can well afford.

** The author, a senior lecturer in Economics at the London School of Economics has, with others, just written A Job Guarantee for Long-Term Unemployed People, Employment Institute, Southbank House, Black Prince Road, London, SE1 7SJ. £2.50*

† House of Commons, Special Employment Measures and the Long-Term Unemployed. First Report from the Employment Committee. Session 1985-1986. 20 January 1986.

Letters to the Editor

Paper shufflers winning

From Mr A. Spillard

Sir, — Can someone out there tell me which is the greater scandal — the insider dealings which have always been with us, or some of the takeovers that leave a dirty taste in the mouth?

There's me, someone who invests long-term in AE for superior management, high-calibre R & D, sound and developing marketing overseas, world-leading NC production equipment. Yet all for nought — down goes the share price on short-term institutional analysis. In move the predators, snap goes the prey; and every rational investment decision to support a progressively managed company goes by the board, completely.

In one gulp and a swallow a company's forethought and planning have been killed by your natural forces.

Let readers take care. For the less-obvious scandals are now starting to be spotted, even though the get-rich-quick and the paper shufflers are winning so far. Examples that look to me like diluting the absolutely worthy efforts of a major industrial company will be followed more and more by others — and down the hill we all go.

A. D. Spillard.
5, Lambourn Gdns,
Harpenden, Herts.

The north has its charms

From the Chairman, Warrington and Runcorn Development Corporation

Sir,—There is much debate nowadays in your columns and elsewhere, on the differing factors affecting the country's business, commercial and general economic performance either side of the so-called "north/south" divide. In particular it has become the fashion to suggest that dynamic, expanding and "high tech" companies will inexorably tend to gravitate to the lush pastures of the south.

I would not attempt to minimise the problems faced by the older, traditional manufacturing areas of the country. I do feel, however, that the efforts and substantial success of various regional agencies in attracting new national and international business to such areas merits far more positive awareness.

At Warrington-Runcorn we have upwards of 80 companies in the electronics, aerospace and bio-chemical sectors alone. These range from multinational concerns to small emergent companies engaged in state-of-the-art activities. A substantial number come from USA, Canada and many countries in Europe and the Far East, while others are the result of British companies developing their own new technology to meet specific needs in the manufacturing or service industries.

The success of a high-tech company will depend on its product, the quality and attitudes of management and workforce, its proximity to other centres of learning and research, and the facility to get its product or services swiftly to its clients. All these attributes are readily available at Warrington-Runcorn; the record of growth and success of our companies is outstanding and has been achieved within a most cost effective environment, and with a quality of life many in the south would envy.

(Professor) Alan Mercer.
New Town House,
Buttermarket Street,
Warrington, Cheshire.

Establishment decisions

From Mr J. Corlass

Sir,—Having read Chapman Pincher's books and the mass of material, speculative and otherwise, printed recently, I think there is one question which should have been asked. Why was Roger Hollis allowed to keep such a vital job? If he wasn't a spy then he was a buffoon in a very high place. Who decided he should stay there? Did the Establishment decide that the man's *feelings* were more important than the nation's security or would it be nearer the truth to ask if the whole bunch of them are buffoons?

J. D. Corlass.
67, Glanville Avenue,
Scunthorpe, S. Humberside.

Professional enquiry

From the Secretary, Institute of Chartered Accountants in England and Wales.

Sir,—I would like to correct Hazel Duffy's report of December 1. It is true that this Institute is engaged in a review of its ethical guidance and that, following a recent decision in the Court of Appeal, it is looking afresh at the registrability under the Restrictive Trade Practices Act of certain aspects of this guidance.

Your report was wrong, however, in its reference to the practice known as professional enquiry. Rather than "barring" a member asked to accept appointment as auditor from making a professional enquiry of any outgoing auditor, our guidance places a positive obligation upon him to do so. There is no question of this practice being abandoned.

E. J. D. Warne,
Chartered Accountants Hall,
Moorgate Place, EC2.

Unemployment and pay

From the Secretary, National Union of Liberal Clubs

Sir, — Doesn't Samuel Brittan's latest excursion into pay and unemployment rates (December 4) show that work done in the north and midlands is of greater value than that in the south-east? Otherwise why would employers pay more for it?

If he really wants more money for working in the south-east perhaps he should try the corollary of moving jobs out to the north — then he would have more disposable income.

Does he really think that if the Yorkshire Post moved to London (as did the Guardian) all the jobs done on the paper would be of greater worth and merit higher wages?

Kevan Riley.
3, Mill Hill,
Rothwell, Leeds.

On the right track

From the Technical Editor, Modern Railways

Sir,—"Hot air about Hotol" (Lombard, November 28)? Certainly hot air about railway technology. Far from "straightening out a few railway lines," French Railways £1bn train à grande vitesse (TGV) project included 240 miles of brand new high speed line. The "boring and unexciting" approach to high speed was followed by British Rail's engineers who, as a back-up to the tilting train, produced the High Speed Train (now called InterCity 125), designed to run 25 per cent faster on existing tracks. This did, indeed, benefit from some judicious easing of curves.

While running 125 mph diesel trains on existing tracks is, technically, the hard way to reduce rail journey times it is a strategy with a far lower financial and environmental cost than dedicated ultra-high-speed lines. As a result, only Britain, among the nations with railways running trains at over 100 mph, has exported its high-speed train technology.

Roger Ford,
8 Russellcroft Road,
Welwyn Garden City,
Herts.

Options in pensions

From Mr I. Walker

Sir — Mr H. Wynne-Griffith criticises the politicians and/or civil servants for not understanding the implications of some of their decisions (Financial Times, 5th December). I would suggest that his specific worries about houses replacing pensions are unfounded.

Repayment of the mortgage at retirement does not affect the member's pension. It only affects his tax-free cash sum, and with personal pensions the formula used to calculate the lump sum requires there to be a residual pension. A contracted-out personal pension will also be required to provide "protected rights" in respect of the DHSS minimum contribution and, if necessary, this requirement will restrict the lump sum and/or the mortgage.

There is certainly confusion in pensions if not indeed chaos, as alleged by Mr Wynne-Griffith, but rather than adding to it, I believe the "new rules" may go some way to rationalising matters.

In particular, the rules are a step in the right direction as regards Inland Revenue limits. They go some way to removing the anomaly of higher limits for employees in schemes not contracted-out, as opposed to those that are (albeit through a personal pension). Also, and more importantly, for the first time an employee may look to three separate sources of pension and protection at one time. It is now possible to be in: a company scheme ("risk benefits" only); the state scheme (basic pension only); and a personal pension scheme.

Iain B. Walker.
40 Ennismore Gardens, SW7.

A question of title

From S. Durham

Sir,—I refer to the Men and Matters note (December 4) on the deletion by N. M. Rothschild of Ms from the British Gas share form. Where is the problem? One simply writes Ms after the option "title."

S. E. Durham
(possibly Ms, possibly not).
97 Cavendish Avenue, W13.

FINANCIAL TIMES

Wednesday December 10 1986

David Marsh reports on a swing towards the W. German conservative parties

Strauss aims for absolute victory

THE POSSIBILITY that West Germany's conservative parties could win an absolute majority in the January 25 general elections is setting nerves on edge across the country's political community.

Such an outcome would mark a sharp deviation from West German voters' post-war habit of voting for coalitions to guard against excesses from either left or right. But the crushing defeat of the opposition Social Democratic Party (SPD) in state elections in Hamburg a month ago has made the possibility of a majority government a factor in the pre-election jousting.

The swing towards Chancellor Helmut Kohl's Christian Democratic Union (CDU), has coincided with new tension between these two parties and the junior partner in the Bonn coalition, the liberal Free Democratic Party (FDP).

After months of apparent hesitation about his political ambitions, Mr Franz Josef Strauss, the Prime Minister of Bavaria and leader of the CSU, has made it clear he is playing for the highest stakes.

Sensing that the conservative wind is in his favour, he has concluded that it could be strong enough to allow the CDU/CSU to rule alone in Bonn after the election – blowing the FDP out of the coalition.

For Mr Kohl, an absolute majority for the CDU/CSU in January would almost certainly be a Pyrrhic victory by leading to the return to Bonn of a triumphant rival in the form of Mr Strauss.

The Chancellor also realises that talk about a possible absolute majority acts as a powerful vote-winning spur for the currently depressed SPD.

Mr Johannes Rau, the Prime Minister of North Rhine Westphalia, and the party's candidate for the chancellorship, is clinging to the goal of seeing the SPD become the strongest parliamentary grouping in January. But the pessimistic prediction in the summer by Mr Willy Brandt, the party chairman, that the SPD would do well to reach 43 per cent of the votes, now has a realistic ring about it.

The latest batch of opinion polls this week put the CDU/CSU within reach of an absolute majority with about 48 per cent of the vote. The SPD is indicated as trailing with 38 per cent or less, while the FDP has about 6 per cent and the Greens ecology party 7 or 8 per cent.

Mr Kohl has tried to dampen expectations of any sweeping conservative victory by calling on his party to "fight for every vote" and by refusing to discuss any idea that the CDU/CSU could rule alone.

None the less, Mr Strauss, in a shot across the bows of both the FDP and the CDU, has stepped up his claim for a top post in the next government.

He has let it be known in the past fortnight that he wants the job of Foreign or Defence Minister. The former post has been held for 12 years in both SPD and CDU-led governments by the FDP's Mr Hans Dietrich Genscher. He and Mr Strauss detest each other with a heartiness only to be found in government coalitions.

The incumbent of the second is Mr Manfred Wörner of the CDU, who during his four year tenure has frequently been tipped for replacement after the elections. Significantly though, in the last few weeks Mr Kohl has thrown his weight behind Mr Wörner.

Mr Strauss at 71, six years after his ill-fated bid for the chancellorship in 1980 against Mr Helmut Schmidt, is probably mounting his last attempt to regain a senior ministerial post in Bonn.

But it is a game of double or quits. In view of the uncertain state of the electorate – the "floating" contingent is put as high as 20 per cent – and six weeks before polling day, Mr Strauss is clearly running the risk of once again falling flat on his face.

Mr Strauss: sights set on victory

Showing what surprises may still be in store, the Greens have been able to make much during the past month of the spate of environmental accidents in the Rhine.

But again – barring the possibility that West Germany's urban guerrillas will mount another bloody attack during the election campaign – the stand of the FDP against overhasty, anti-terrorist measures may end up winning, rather than losing the party votes in January.

Mr Walter Wallmann, the Environment Minister brought in during the summer to cope with West Germans' concern over nuclear energy, has been clearly caught off guard. In the light of a recent television poll showing that environmental concerns outweigh unemployment as an election issue, the run of mishaps could boost the Greens' share of the vote by at least two or three percentage points.

History also recommends caution. Since the Federal Republic was founded in 1949 the CDU/CSU have regularly formed the largest coalition in the Bundestag (federal assembly). But only once – in 1957 – have they won an absolute majority of votes.

Reflecting the peculiar checks and balances built into post-war West German politics, any move by one party towards dominance automatically tends to set off a counter-reaction back towards the centre by voters wary of extremist shifts.

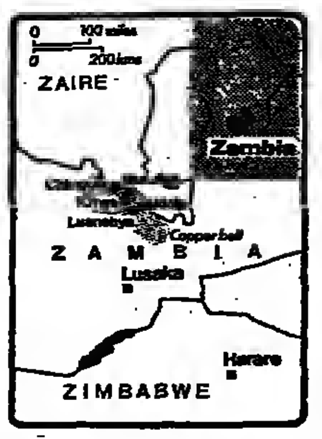
Mr Genscher in particular and the FDP in general may well therefore have been boosted rather than weakened by attacks mounted on the present Foreign Minister's policies by Mr Strauss and his friends during the last few weeks.

A senior SPD deputy and former minister who stands on the right of his party says the latest escalation of the Strauss campaign to dislodge Mr Genscher should help the FDP on January 25 to score comfortably more than the 5 per cent of votes needed to win representation in the Bundestag and a seat at the CDU/CSU coalition table.

Both the CDU and CSU have hit out at the FDP for deserting an agreement reached in October to bring in new legislation allowing terrorists who turn state's evidence to escape prosecution.

Although there is little doubt that Mr Kohl will again be Chancellor in February, his apparently impregnable lead in the polls and the evident disarray of the SPD may well mean the election result will be closer than it would now appear.

As one Western diplomat in Bonn says, reflecting the violent lurches of public opinion in reaction to outside events and influences: "The issue which decides the election may well not even have happened yet."



Zambian riots after food price increases

By Victor Mallet in Lusaka

PRESIDENT Kenneth Kaunda of Zambia yesterday declared a dusk-to-dawn curfew in copper mining towns after at least eight people were reported to have died in riots over rises in the price of food.

The Government also closed the country's land frontiers to outgoing travellers, but international air traffic continued normally.

The moves followed a day of increasing violence in which rioters went on the rampage, looting shops and stoning cars and buses.

Police used batons and tear gas in Kitwe and Ndola in an effort to contain the protest. The official Zambia News Agency said that police had fired on stone-throwing crowds, in clashes "of marked intensity and ferocity."

The copperbelt, long a focus of opposition to the Government of President Kaunda, is Zambia's industrial heartland. Exports of copper and cobalt from the mines earn 95 per cent of the country's foreign exchange, but reserves are becoming exhausted and prices have fallen sharply since the copper boom which followed independence from Britain in 1964. Zambia is the fifth-largest non-Communist copper producer.

Tension in Zambia has been rising steadily in recent weeks as the Government's economic austerity programme, supported by the International Monetary Fund (IMF), begins to have a severe impact on the lives of the country's 6m people.

Yesterday's violence was sparked by a doubling in the price of high-grade maize meal and by shortages of basic commodities. "Mealie meal" is the country's staple food and consumer subsidies are being phased out to reduce government spending and encourage farmers with higher prices.

After a small student demonstration against price rises last week in Kitwe, the country's second largest city, rioting erupted in earnest early yesterday in Kitwe's working class townships and spread rapidly to the city centre.

"The situation is very bad," a police spokesman said. Crowds of youths hurled stones and bottles at passing vehicles and smashed and looted shops, offices and factories, taking away televisions and other goods. Police sealed off the town and told residents not to go to work.

Later the violence spread to Ndola and, apparently, to other copper belt towns as well. "The police are all over Ndola. There is tear gas smoke all over the town centre," said one Ndola office worker. "We hear the guns going on," said a Kitwe resident.

Yesterday, before the news of the troubles on the copperbelt became known, Dr Kaunda told a political seminar for the armed forces that Zambians should not despair but should work hard to revive the country's ailing economy.

Dr Kaunda, however, after a rejection of rigid socialist policies which amounts to a volte-face, has defended the austerity programme as the best long-term solution to Zambia's problems.

But he has faced growing discontent from trade unions and leaders of his own ruling United National Independence Party (Unip), the only legal political party.

THE LEX COLUMN

The gnomes of Geneva

Mr Ahmed Zaki Yamani always seemed to believe in the gnomic utterance as the way to express Saudi oil policy. But now the market lacks even those ambiguous fragments of information to piece together a view of which way Opec's largest producer will jump at tomorrow's ministerial meeting in Geneva. The first hurdle is whether Yamani's successor has been able to disabuse King Fahd of his apparent belief that a package of increased output and prices is achievable.

The latest signs are that the Saudis, now producing about 1m barrels a day over quota, might be prepared to participate in a deal involving a lowering in Opec's current ceiling of around 17m barrels a day. But there is every sign that this traditional carving up of responsibilities will be as bloody as ever, with resentment at overproduction by the Gulf states running high.

Yet even if some sort of cutback is agreed by Christmas, the mooted $18 policy is a nonsense, and not just because it gives the traders something to discount from. There is no way that both production and prices can be fine-tuned, leaving aside the nightmare of crude blend differentials. The only way the ministers can leave Geneva with credibility is to agree a simple annual production ceiling and leave the markets to find a price. That way the oil price will tend to fall in the summer and rise in the winter, leaving the oil companies, rather than Saudi Arabia, to iron out the fluctuations in the market. Just like the good old days.

Granada

It is a tribute to Granada's own virtues that the share price has stood up so well to proof beyond doubt (and even beyond judicial review) that the group cannot be taken over. At 287p, down 4p yesterday, the shares are only a few pence below their peak and worth almost exactly twice what they were in the middle of 1984. Per share earnings have broken out of the straight jacket, and are at last beginning to justify the optimistic dividend increase of the past five years.

Admittedly, the raw 69 per cent figure for the rise in earnings per share is on the flattering side: without a falling corporate tax rate, elimination of loss-makers, and two extra months of overseas rental the jump would be more like 30 per cent. Though there are some positive factors that will not recur – like the catching up of television advertising growth after a very flat 1985 – the momentum should be sustained; Granada has been doing a good job of cleaning up its portfolio and of reinvesting.

Ploughing rental cash flow into the substitute activity of electronics retailing looks a low-risk move, so long as Granada avoids too direct a confrontation with such as Dixons. The major leap into DBS – if Granada's consortium gets the franchise tomorrow – might be another matter.

Norcros

As conglomerates no longer seem the thing, Norcros is probably right in trying to present a bi-focal not multi-focal image. But while it retains five profit centres, not counting associates, the argument is not very convincing; the more so since one of the five is just three old ones minus a few bits. There is still a lot of the old rag-bag style about Norcros, not the least being the paradoxical way that something can be relied upon to go wrong unexpectedly, delaying the moment when the well-known profit potential is finally realised.

Forecasts for the current year had already come down, and yesterday's interim figures showed pre-tax profits at £20.1m, up only 3.6 per cent from £18.8m. The disappointments of flat profits from the building side, where the industry is booming, halved associate profits, and the collapse of the Nigerian currency were not surprises. At least Ofrex is beginning to repay its purchase price, while printing and packaging seems unalloyed bliss.

But the shares, buoyed lately on hopes that next year will at last see the great leap forward, slipped 5p to 255p on the suspicion that there's a case for dampening those hopes once more. Gearing now seems likely to stay high at around 50 per cent, keeping the interest charge up, as Norcros spends rather than cash flow on projects which include bringing the tile works up to date and revamping at UBM. Returns will take a while to flow from this expenditure, and the shares need stronger evidence of jam tomorrow (rather than the day after) before they are likely to rise from a current year p/e of over 11.

GEC

Talk of buying GEC's redoubtable [illegible] under its falling share price shows that City disenchantment with the General's long retreat is turning to something between fear and vengefulness. The shares could have been bought cheaper quite recently – they were 20p lower in October 1985 – but the hunting down of Nimrod has cast a long shadow.

Cockerill chief 'to take over Renault'

By George Graham in Paris

BELGIAN government officials said yesterday that Mr Raymond Levy, who for the past year has headed the state-owned steel group Cockerill-Sambre, has been asked to take over Renault, the French car company.

In Paris French government officials remained silent but Mr Levy and Mr Jean Gandois, head of the French aluminium group Pechiney and Mr Levy's predecessor at Cockerill-Sambre, have been considered the two most likely candidates to take charge of Renault.

Mr George Besse, chairman of the French state-owned car group, was murdered in Paris last month by the terrorist group Action Directe.

Mr Jacques Chirac, the French Prime Minister is believed to have agreed to the choice of Mr Levy, who is thought to have accepted. France still needs to obtain the agreement of the Belgian Government, which is keen that Mr Levy should fulfill his 5-year contract.

Educated at France's elite Ecole Polytechnique, Mr Levy spent much of his career in the state-owned oil industry. Vice-president of Elf Aquitaine until 1980, he moved to the state-owned French steel company Usinor but left after two years as chairman after disagreements with the then socialist Government of Mr Laurent Fabius.

If Mr Levy accepts that Renault offer, he will be faced with the challenge of continuing the restructuring plan that was put in place by Mr Besse before his murder.

Mr Besse's plan called for Renault to cut its expenses, reduce its workforce and boost productivity in an effort to break even after expected annual losses of about FFr 5bn in 1986. The group had consolidated losses of FFr 10.925bn last year and FFr 12.555bn in 1984.

Yeutter threatens to retaliate for lost grain sales to Europe

BY PETER MONTAGNON IN LONDON AND QUENTIN PEEL IN STRASBOURG

THE US "will have no alternative" but to retaliate against the EEC if it cannot obtain satisfaction soon on its request for compensation over lost grain sales to Spain, Mr Clayton Yeutter, US Trade Representative, said yesterday.

Despite a end-of-the-month deadline, "the two sides are still a long way apart. The probability of reaching agreement is not very high," Mr Yeutter said in an interview in London.

The US has been seeking compensation from the EEC for grain sales to Spain that have been lost because of that country's accession to the Community earlier this year.

Yesterday Mr Yeutter made it clear that the US would not be deterred from retaliation over the grain issue by the possibility of counter-action by the EEC itself, a move which would sharply increase the trade friction between the two sides.

Indicating that the US might retaliate with trade restrictions in areas other than agriculture, he said: "We would certainly do that if it were necessary to achieve what we would deem a proper response."

Mr Yeutter was on his way to Brussels where he is to meet Mr Willy de Clercq, EEC Trade Commissioner, at the weekend for a final attempt at breaking the deadlock over the grain issue.

In Strasbourg, Mr Willy de Clercq said "a showdown would be very damaging – both for some US agricultural interests and for ours."

However, he set out possibilities for concessions being offered to the US, not only on industrial products but also for farm trade such as soyabeans.

"We say they can claim credits not only in the industrial sector but also in agriculture. The treatment of some substitute products will improve if they get a good deal, and for soyabeans they will find it easier to export to the Community."

Before it joined the EEC, Spain banned imports of soyabeans, but US sales of maize and sorghum to the Spanish market totalled almost $1bn a year. Spanish accession has meant the loss of those sales, but should mean easier access for soyabeans.

The Community appears to have accepted part of the US argument that the benefits of lower tariffs for industrial products will take several years to be felt, whereas the losses on agriculture are immediate. The EEC still rejects flatly any product-by-product approach to the negotiations.

Separately, Mr Yeutter told the Confederation of British Industry, the UK employers' association, that he would also be raising the level of subsidy planned for the Airbus A330/A340 aircraft at his talks in Brussels. He said he would be seeking political level talks to be held on this issue in Europe during January.

European subsidisation of its aircraft industry is a point of concern for the US not only because the industry loses money.

Yeutter plays a waiting game, Page 6

Chip funding sought

Continued from Page 1

Industry has also been trying to mount a co-operative manufacturing project. The industry project, tentatively called Sematech, also involves building an advanced production plant which would be funded jointly by government and industry. It would develop new manufacturing technology for high-volume production of Drams and eventually sell its products commercially.

The DSB task force report is widely seen as an endorsement of the "Sematech" industry project.

Parts of the task force report, published in Electronic News, a US industry publication, describe growing concern about the future of the US electronics industry.

"Without a semiconductor industry to provide a base for all of our high technology endeavours, the future economic strength of this country is threatened," the report says.

The report, scheduled to be released early next year, has yet to be approved by Mr Caspar Weinberger, Defence Secretary. It is not however, expected to run into significant opposition. Administration support for some form of government-funded venture to boost the semiconductor industry has been voiced by both Defence and Commerce Department officials over recent months.

The Administration is also backing efforts to modify anti-trust laws that would be required to permit co-operation between companies backing such an initiative.

Chirac delays legislation

Continued from Page 1

Mr Chirac's fragile majority of only three in the National Assembly and the careful balance of factions within the Government give him little room for manoevre in reshuffling his Cabinet. On the other hand the Government's weakness itself imposes discipline on its supporters who fear that outspoken criticism could put the administration's future at stake.

Student leaders adopted the slogan of "never again" as the main message for today's demonstration in which those taking part will walk in silence and wear black armbands. The demonstration is now intended as a protest against the police

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	C	15	59	Dubrovnik	S	15	59	Malta	F	18	64	Rhodes	S	18	64
Algiers	C	13	55	Edinburgh	S	5	41	Manchester	S	6	43	Rio de J'o	S	35	95
Amsterdam	S	8	46	Faro	S	15	59	Manila	S	30	86	Rome	F	14	57
Athens	F	12	54	Florence	C	12	54	Melbourne	—	—	—	Salzburg	S	5	41
Bahrain	S	18	64	Frankfurt	C	5	41	Mexico City	S	23	73	San Francisco	S	16	61
Bangkok	S	31	88	Funchal	C	18	64	Miami	C	26	79	Seoul	S	7	45
Barcelona	S	10	50	Geneva	S	5	41	Milan	S	4	39	Singapore	F	29	84
Beirut	—	—	—	Gibraltar	S	15	59	Montreal	C	-8	17	Stockholm	C	4	39
Belfast	C	3	37	Glasgow	F	6	43	Moscow	S	-6	21	Strasbourg	C	8	46
Belgrade	S	4	39	Guernsey	F	7	45	Munich	S	3	37	Sydney	S	21	70
Berlin	S	4	39	Helsinki	C	1	34	Nairobi	F	23	73	Taipei	F	19	66
Biarritz	F	12	54	H. Kong	S	20	68	Naples	S	15	59	Tangier	F	14	57
Bombay	S	30	86	Innsbruck	S	7	45	Nassau	S	28	82	Tel Aviv	F	17	63
Bordeaux	S	12	54	Inverness	S	3	37	New Delhi	S	28	82	Tenerife	F	23	73
Brussels	F	8	46	Islamabad	C	19	66	New York	C	8	47	Tokyo	S	15	59
Budapest	F	-1	30	Istanbul	C	8	46	Nice	R	11	52	Toronto	Sn	-8	18
B. Aires	S	32	89	Jakarta	S	32	90	Nicosia	S	15	59	Tunis	F	16	61
Cairo	F	19	66	Jersey	S	10	50	Oporto	S	11	52	Valencia	S	14	57
Cape Town	S	25	77	Jo'burg	S	25	77	Oslo	S	7	45	Venice	S	8	46
Caracas	C	26	79	Lima	S	23	73	Paris	S	8	46	Vienna	C	-3	27
Casablanca	F	17	63	Lisbon	C	17	63	Peking	S	8	46	Warsaw	S	2	36
Chicago	C	7	45	London	S	10	50	Prague	C	-1	30	Washington	—	—	—
Cologne	C	11	52	Los Angeles	S	21	70	Reykjavik	F	-2	28	Zurich	Fg	3	37
Copenhagen	S	5	41	Luxembourg	C	7	45								
Corfu	S	16	61	Madrid	S	8	46								
Dallas	—	—	—	Majorca	F	15	59								
Dublin	F	7	45	Malaga	S	14	57								

Readings at mid-day yesterday: C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

German dump discord

Continued from Page 1

the East Germans DM 68 ($34) per tonne, plus transport costs. The depository, spreading over 500 acres, is Europe's biggest.

The Paris-based Organisation for Economic Co-operation and Development (OECD) has estimated that the opening of Schoenberg has led to a doubling of cross-border hazardous waste transport in Europe since 1982. A cargo of toxic waste is estimated to cross a European national border once every five minutes.

The West German chemical industry association said the Lübeck blocking action would bring "difficulties" for the chemical industry.

The problem over Schoenberg underlined the fact that individual states had failed to build proper waste depositories inside Germany, above all because of opposition from ecologists, he said.

The affair has also led to heavy political fall-out in West German states, which under the federal system are responsible for environmental matters.

The Hamburg city council, which like Lübeck is in the hands of the opposition SPD, has sharply criticised Lübeck's action. Hamburg delivers about 500,000 tonnes a year of waste of all kinds to Schoenberg. Mr Bernard Krüger, the head of the Hamburg refuse service, said that if Schoenberg were closed "Hamburg would drown in its own rubbish after three days."

Hearing on Iran arms

Continued from Page 1

crat) about whether he ordered the transfer of the funds from the Iran arms sale to the "Contra" rebels in Nicaragua:

"Mr Hamilton, on the advice of counsel I respectfully and regretfully decline to answer the question based on my constitutional rights."

The Lt-Colonel, who has been named as one of the key figures in an investigation of the Iran arms deals by a special prosecutor to be appointed shortly, added:

"Mr Hamilton, I don't think there is another person in America who wants to tell this story as much as I do sir."

Several members of the committee declined to ask questions of the officer, saying they did not want to "prolong the agony."

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Wednesday December 10 1986

First Interstate mounts $3.2bn bid

By Our New York Staff

FIRST INTERSTATE Bancorp, the Los Angeles-based banking group, moved a step closer to mounting a hostile $3.2bn takeover bid for BankAmerica Corporation and yesterday filed an application with the Federal Reserve Board to acquire its larger, but troubled rival.

In its application, First Interstate committed itself to raising $550m in primary capital prior to the consummation of any merger with BankAmerica. The new capital would consist of $150m of common stock, $150m of perpetual preferred stock and $250m of primary capital debt securities.

First Interstate re-iterated its conviction that the proposed combination, which has been rebuffed twice by BankAmerica, is in the best interests of shareholders, management and employees of both corporations.

It said it continued to stand ready to negotiate a merger based on its October 28 proposal to the BankAmerica board. The all-paper bid is worth $21 per BankAmerica share.

The Los Angeles group's application, submitted to the Federal Reserve under the Bank Holding Company Act, would accommodate either a negotiated or a non-negotiated merger transaction.

It is clear that First Interstate has not ruled out the possibility of making an unfriendly bid for the company and appealing direct to BankAmerica's shareholders. Last week, BankAmerica asked First Interstate to withdraw its offer until its new management team had time to complete an extensive review of BankAmerica's prospects.

First Interstate said that in the near future it would file a registration statement with the US Securities and Exchange Commission covering the securities to be issued in an exchange offer to BankAmerica's shareholders.

CLEAR SIGNAL BY AVIATION GROUP OF BID TO CONSOLIDATE

United Tech in $592m write-off

BY JAMES BUCHAN IN NEW YORK

UNITED Technologies, the aviation company that Mr Harry Gray built into one of America's largest conglomerates, yesterday announced an extraordinary $592m pre-tax charge to profits to account for restructuring costs and the early retirement or departure of large numbers of middle management.

Yesterday's special write-off – which will entail a substantial after-tax loss for the fourth quarter although not, the company said, for the year – is the clearest sign yet of the new management's attempts to consolidate Mr Gray's far-flung empire into a more tightly run business capable of growing from within.

United Technologies said $237m was provided to account for the loss of 11,000 salaried employees, or about 6 per cent of the payroll. The remaining $355m was attributable to the sale, closure or reduction of several small businesses.

Mr Robert Daniell, who took over from Mr Gray as chief executive last January and will replace him as chairman next month, said yesterday: "The actions announced today will enable US to complete our plan of restructuring and position UTC for sustained, profitable growth in 1987 and on."

He said that United Technologies intended to strengthen and expand its core businesses which include Pratt & Whitney, the aircraft engine manufacturer, Otis (elevators), Carrier (air conditioning), and Sikorsky (helicopters).

United Technologies, which is based in Hartford, Connecticut, has suffered somewhat erratic earnings since 1982 and has been mooted as a possible candidate for break-up in Wall Street, where conglomerates are now unfashionable.

In 1985, United Technologies took a $424m charge against the closure of its Mostek semiconductor business and a further $155m write-off in the second quarter of this year against cost overruns on radar contracts at its Norden subsidiary.

Edelman again moves on Lucky Stores

By Our Financial Staff

MR ASHER EDELMAN, the New York investor, has renewed his investor group's $37 a share acquisition proposal for Lucky Stores, a California supermarket chain, and requested a meeting to negotiate the proposal.

Lucky Stores has twice before rejected $37 a share, or $1.88bn, bids from the Edelman group.

Mr Edelman pointed out that Lucky said in its restructuring programme proxy that the restructuring was "designed to encourage any person attempting a change of control to enter into negotiations with the board." He said that "given the current market, our last offer, and your statement that you are encouraging persons to enter into negotiations with the board, I believe it is your responsibility to negotiate immediately with us in good faith for the sale of Lucky Stores to our group."

● Harold Simmons, the Dallas-based investor, and a group of companies he controls said they cut their stake in GAF, the building materials group, to 1,766,300 shares, or 4.98 per cent of the total outstanding, from 2,218,400 shares, or 6.25 per cent.

Goodyear to use part of $4bn facility to buy back shares

BY WILLIAM HALL IN NEW YORK

GOODYEAR Tire & Rubber, which last month thwarted an unwelcome $5.3 bn takeover bid, has arranged e $4bn credit facility with a group of 17 banks which is considerably more than it needs to finance its controversial share buyback plan.

Mr James Glass, Goodyear's chief financial officer, says the proceeds will be used to repurchase 40m shares of Goodyear's common stock, to refinance amounts outstanding under certain existing bank credit arrangements and for general corporate purposes.

As part of its strategy to defeat an unwelcome bid by Sir James Goldsmith, the Anglo-French financier, Goodyear agreed to buy back Sir James' 12.5m shares at $49.50 a share and another 40m shares at $ 50 a share from the remainder of Goodyear's shareholders. Goodyear's shares were unchanged at $42⅞ in early trading yesterday.

Sir James Goldsmith had paid $22m to raise the necessary bank financing for his bid for Goodyear and had offered to use his best endeavours to persuade his bankers to finance Goodyear's share buyback. However, Goodyear has decided to use its own bankers.

The credit facility is believed to be the largest of its kind raised for a US industrial company this year. It is being lead managed by Citibank, and includes a $2.25bn unsecured amortising three-year term loan and a $1.75bn unsecured, reducing seven-year revolving credit facility.

Bank of America, Chemical Bank, Commerzbank and Manufacturers' Hanover Trust are co-managing the credit facility and have each agreed to provide up to $500m.

In addition Bank of Montreal, Banque Nationale de Paris, Canadian Imperial Bank of Commerce, Continental Illinois, National Bank & Trust Company, Deutsche Bank, Kredietbank Luxembourgeoise, Mitsubishi Bank, Standard Cartered Bank, Sumitomo Bank and the Toronto-Dominion Bank have agreed to provide up to $300m each.

● Firestone Tire & Rubber, the second biggest US tyre producer, ended its 1985/86 financial year on a strong note with a rise in fourth-quarter net operating earnings from $2m, or five cents a share, to $25m or 64 cents, writes our financial staff.

The latest figure includes a gain of $10m, or 26 cents a share, because of reductions in Lifo inventories. For the full year, net from continuing operations was up from $30m, or 72 cents a share, to $68m.

Final net figures have been heavily distorted by charges and other special factors. In 1985/86 a $85m restructuring charge, $16m in income from discontinued operations and $66m from a change in pension accounting lifted the bottom-line figure to $85m, or $2.16 a share.

In the previous year, a $57m restructuring charge, $21m income from discontinued operations, and $9m in extraordinary credits reduced the final figure to $3m.

Results for 1985 have been restated to reflect wheel and rim businesses as discontinued operations. The company expects to sell these by the end of this month.

North American tyre manufacturing profits were higher in the latest year because of lower raw material prices and cost-cutting efforts. Profits also rose in tyre retailing and the international business.

Ferruzzi boosts holding in Montedison

By Alan Friedman in Milan

MR RAUL GARDINI'S Ferruzzi agro-business group has acquired a key 1.6 per cent equity holding in the Montedison chemicals concern, increasing Ferruzzi's total Montedison shareholding to 26.6 per cent. Under Italian convention, this stake gives Ferruzzi effective control.

The 1.6 per cent shareholding in Montedison, which is worth L92bn ($66m) on the basis of yesterday's share price, has been acquired from Italcementi, the cement company controlled by Mr Giampiero Pesenti.

Instead of receiving cash, Mr Pesenti has been given a 25 per cent shareholding in Ferruzzi's quoted Calcestruzzi cement holdings subsidiary.

The latest acquisition of Montedison shares is part of Ferruzzi's drive to consolidate its already effective control of the Milan-based chemicals group. Mr Gardini is thought to be close to acquiring still more Montedison share holdings.

Meanwhile, it was also learned yesterday that Mr Gardini has broken an agreement with Mr Enrico Cuccia of Mediobanca, the merchant bank, which would have led to the two men jointly deciding on board appointments at Fondiaria, the Florence-based insurance business, now 41 per cent-controlled by Montedison.

Lockheed acts to deter takeovers

LOCKHEED, the US aerospace group, has adopted e shareholders' rights plan designed to deter coercive takeover tactics and to prevent anyone from gaining control of the company without offering a fair price to all Lockheed shareholders.

The rights were not being distributed in response to any effort to acquire control of the company, Lockheed said.

PKbanken acquires Chase Manhattan's Swedish subsidiary

BY KEVIN DONE, NORDIC CORRESPONDENT, IN STOCKHOLM

CHASE MANHATTAN, the US banking group, is selling its Helsinki subsidiary to Sweden's PKbanken less than five years after entering the Finnish banking market.

The future of Chase Manhattan's Norwegian subsidiary, which began operations only last year, is also under review, although Mr Richard Lowry, the bank's regional executive for continental Europe, said yesterday that no negotiations for the sale of the Oslo subsidiary were under way.

Chase Manhattan has changed its strategy for serving smaller banking markets in favour of operating directly from main financial centres rather than setting up local subsidiaries.

At the beginning of this year it was one of the most notable absentees when foreign banks were allowed to begin operations in Sweden for the first time. A total of 12 foreign banks were established in Sweden, including Citibank and Manufacturers Hanover of the US.

● We feel we can cover our Finnish business from London and New York, Mr Lowry said. "With the internationalisation and securitisation of markets and the increasing focus on a few financial centres, the nature of the business and the way we deal with customers has changed."

PKbanken, Sweden's third largest commercial bank, is still seeking to widen its foreign network. It recently completed the SKr 375m ($54m) takeover of English Trust in order to establish a merchant banking operation in the UK.

It is understood to be paying FM 15m-20m ($3m-4m) for the Chase Manhattan Helsinki subsidiary. Only three other foreign banks have established subsidiaries in Finland: Citibank, Banque Indosuez and Samuel Montagu.

Mr Rune Barneus, first executive vice president of PKbanken, said: "Our strategy is to look at the Nordic markets as a home market. We are also planning to open in both Norway and Denmark at a later stage."

PKbanken has had to make up lost ground abroad following its decision earlier this year to break up its previous joint ventures with Christiania Bank of Norway. Christiania Bank took over 100 per cent control of the joint subsidiaries in London and New York, while PKbanken took over the jointly owned subsidiary in Singapore.

Bank offer complete

BY RODERICK ORAM IN NEW YORK

CONTINENTAL Illinois said the Federal Deposit Insurance Corporation had completed its offering of common shares in the Chicago bank holding company.

The issue was fully subscribed at $5.25 a share, contrary to the previously reported concern of market participants that the underwriters had failed to find buyers for all 50m shares initially offered. In fact, the underwriters took an additional 2.5m shares to cover over allotments that resulted from investor interest.

Mr Eric Dobkin, a partner in Goldman, Sachs, the lead underwriter, said all the shares were sold at the time of pricing with the end buyers representing a broad group of institutional and retail investors.

With some analysts calculating that a $5.25 a share price indicated a price-earnings ratio of about 17, some investors were cool to the issue. Goldman Sachs said, however, that a ratio of 10 was more realistic.

Mr William Seidman, chairman of the FDIC, said the issue price was "within our expectations."

Swedish institutions take stake in SSAB

By Sara Webb in Stockholm

A CONSORTIUM of Swedish pension and insurance funds, led by Skandia, the insurance group, is to buy one-third of the shares in SSAB, the Swedish state-controlled commercial steel group, for around SKr 450m ($65m). Last month, the Government agreed to buy Electrolux's 25 per cent stake in SSAB for SKr 600m and announced plans to increase the ownership in SSAB with a view to eventually bringing the group to the stock market.

At the same time, the board at SSAB was given a new look with several strong industrial names, a move which was seen as an inducement by consortium members.

Skandia and the Fourth National Pension Fund will each have 8.33 per cent of the shares in SSAB, while the two Skandinaviska Enskilda Banken pension funds will own 5 per cent and 3.33 per cent. SPP, the white collar workers' private pension fund, will own 5.83 per cent, and AMFp, the blue collar workers' pension fund, will own 2.5 per cent.

Under Swedish law, insurance companies cannot control more than 5 per cent of the votes in a company, and the one-third stake will represent 20 per cent of the controlling votes in SSAB through a mixture of A shares and weaker B shares.

Mr Olle Ryd, state secretary in the Industry Department with special responsibility for state-owned concerns, said that SAB would be introduced on the stock market "as soon as possible" provided the company met with stock exchange requirements.

However, members of the consortium do not believe that SSAB will be ready for a stock market launch for at least four years. The Government has so far embarked on a very modest privatisation programme, placing 15 per cent of PKbanken on the stock market in 1984.

● Alfa-Laval, the Swedish process engineering group, is negotiating to buy the Euroheat unit of Saab-Scania, the motor company. Euroheat is a producer of district heating plants and hot-water heating tanks. It has annual turnover of SKr 240m and 300 employees.

STRIKE TAKES TOLL ON FARM EQUIPMENT GROUP

Deere suffers fall into loss

BY JAMES BUCHAN IN NEW YORK

DEERE, the world's largest manufacturer of farm equipment, lost $139.7m or $2.06 a share in the fourth quarter to October. The result was affected by a weak North American farm economy and a crippling three-month strike at all the company's main factories in the US.

The loss compares with a profit of $19.4m or 29 cents a year earlier. The 150 year old company also reported its first annual net loss since the Great Depression – a restated $299.3m or $3.38 per share in the year ended October 31 against net income of $30.5m or 45 cents earlier.

Worldwide sales were 29 per cent lower in the fourth quarter, at $818m, and production was down 51 per cent. For 1986 as a whole sales of $3.5bn were down 13 per cent, and production of North American farm equipment fell by 30 per cent.

Deere said it was no nearer to settling the strike, which began on August 23 and has shut 13 plants. However, the strike has benefited Deere in helping to reduce the very high stock of tractors and farm equipment in dealers' yards, which is hampering earnings. Deere said that farm equipment inventory with dealers dropped by $635m in the year, reducing total net trade receivables by a third.

Mr Robert Hanson, chairman, said that he did not expect much short-term improvement in retail demand for farm equipment and that the industry would continue to be plagued by low capacity use and price competition.

"We will continue to operate at low levels of capacity utilisation, and operating results in 1987 will remain under severe pressure, especially in the first quarter, because of the strike," he said.

Wessanen in $40m US deals

BY LAURA RAUN IN AMSTERDAM

WESSANEN, the Dutch food processing group, plans to buy two US companies, Balanced Foods and Green's Dairy, for about Fl 90m ($40m) in cash and shares. Wessanen also said yesterday that it was selling its Italian subsidiary, which makes artificial milk for animals, because of changes in the Italian industry. Wessanen Italia will continue to receive technological assistance from the Dutch company.

The American acquistions are closely in line with Wessanen's long-term policies of expanding in the US and strengthening its specialty food lines.

Wessanen's new shares will be issued in Switzerland and a portion used to partially pay for the acquisitions. Profits per share for 1986 are still expected to surpass last year's Fl 18.82 despite the larger number of shares outstanding, Wessanen said.

In London Swiss Bank Corporation International said it was lead managing an international placement of up to 1m bearer depositary receipts of Wessanen.

The issue is being targeted at investors in Switzerland, France, Italy, Scandinavia, West Germany and the UK. Final terms will be set on, or before, Friday.

Cofide plans rights and scrip

BY ALAN FRIEDMAN IN MILAN

COFIDE, the master company of Mr Carlo De Benedetti, the Italian financier plans to "reward" shareholders who have suffered as a result of recent non-voting share issues with the offer of a rights issue and a bonus share distribution.

A major controversy has developed in Italy over the extensive issue of non-voting savings shares by companies raising funds on the Milan bourse. Savings shares have been trading at discounts of up to 50 per cent of the value of ordinary voting shares and companies issuing such shares have suffered several flops in recent months.

The new Cofida rights, which the company admits is not a necessary fund raising offer and is aimed instead at compensating investors, will see holders of savings shares (as well as holders of ordinary shares) able to subscribe one new Cofide ordinary share for every 10 already held. The price will be a nominal L1,000 against a market price of L4,885.

On top of the rights shareholders will be offered a 12 for 100 scrip issue.

The Milan bourse was hit by heavy selling pressure yesterday and the main market index fell by 3 per cent. Last week the market fell by 4 per cent.

Modest rise in turnover at Preussag

BY OUR FINANCIAL STAFF

PREUSSAG, the West German metals, energy and transport group which fell into the red last year, reports a modest improvement in turnover for the first nine months of 1986.

However, the higher revenue arose mostly from the first time consolidation of an acquisition and it is clear that Preussag is still facing very tough trading conditions.

The group says it has made an operating profit so far this year but stresses that final 1986 results will depend on "the need to make provisions and depreciations."

For 1985 Preussag suffered a net loss of DM 13.1m ($6.5m) in contrast to 1984 profits of DM 155m. As a result the dividend was cut by DM 1 to DM 8 a share.

S. African gold mine payouts maintained

By Kenneth Marston, Mining Editor

THE LATEST batch of half-yearly South African gold mining dividends in the form of interim payments for the year to June 30 and comes from the mines in the Consolidated Gold Fields group.

There are no reductions from the levels of a year ago—Venterspost comes out well with a payment of 120 cents (39p) against 90 cents last December.

Other increases—compared in the accompanying table—come from Deelkraal, Kloof and Libanon. Unchanged payments are declared by Doornfontein and Vlakfontein.

	Dec 1986 cents	June 1986 cents	Dec 1985 cents	June 1986 cents
Deelkraal	25*	35	20*	20
Doornfontein	110*	145	110*	140
Driefontein	145*	180	145*	195
Kloof	80*	70	55*	250‡
Libanon	175*	245	170*	210
Venterspost	120*	110	90*	165
Vlakfontein	15*	45	15†	40

* Interim. † Capital repayment.
‡ Before four-for-one share split.

NZ lifts holding in steel group

By Our Financial Staff

THE New Zealand Government will complete its financial restructuring of New Zealand Steel by increasing its shareholding to 90 per cent from 81.2 per cent. It will take over loans totalling about NZ$800m (US$402m) in return for the company issuing a further 314m shares and NZ$200m worth of redeemable preference shares.

This announcement appears as a matter of record only.

New Issue — 18th November, 1986

U.S. $100,000,000

BACOB Finance N.V.

(Incorporated with limited liability in The Netherlands)

7¾ per cent. Guaranteed Notes due 1991

Unconditionally and irrevocably guaranteed on a subordinated basis as to payment of principal and interest by

BACOB Savings Bank s.c.

(A co-operative company incorporated with limited liability in Belgium)

Issue Price 101¾ per cent.

Union Bank of Switzerland (Securities) Limited — BACOB Savings Bank s.c.

Lloyds Merchant Bank Limited

ASLK-CGER Bank — BankAmerica Capital Markets Group

Citicorp Investment Bank Limited — Crédit Commercial de France

Kredietbank International Group — Mitsubishi Finance International Limited

Samuel Montagu & Co. Limited — Security Pacific Hoare Govett Limited

Standard Chartered Merchant Bank — Westdeutsche Landesbank Girozentrale

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New issue — 30th September, 1986

U.S. $150,000,000

GTE Finance Corporation

GTE

7¼ per cent. Notes due 1991

Issue Price 101 per cent.

Union Bank of Switzerland (Securities) Limited

Algemene Bank Nederland N.V. — Berliner Handels- und Frankfurter Bank

First Chicago Limited — Leu Securities Limited

Manufacturers Hanover Limited — Mitsubishi Finance International Limited

PaineWebber International — Prudential-Bache Securities International

Société Générale — Westdeutsche Landesbank Girozentrale

Yamaichi International (Europe) Limited — Banco di Roma

Genossenschaftliche Zentralbank AG-Vienna — Swiss Volksbank

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New issue — 27th November, 1986

PHILIP MORRIS

Philip Morris Companies Inc.

U.S. $100,000,000

7½ per cent. Notes due 1991

Issue Price 100⅞ per cent.

Union Bank of Switzerland (Securities) Limited

Algemene Bank Nederland N.V. — Banque Paribas Capital Markets Limited

Commerzbank Aktiengesellschaft — Credit Suisse First Boston Limited

Daiwa Europe Limited — Dresdner Bank Aktiengesellschaft

Lloyds Merchant Bank Limited — Merrill Lynch Capital Markets

Nomura International Limited — Orion Royal Bank Limited

Swiss Bank Corporation International Limited

Julius Baer International Limited — Banca del Gottardo

Banca della Svizzera Italiana — HandelsBank N.W. (Overseas) Limited

Leu Securities Limited — Swiss Volksbank

This announcement appears as a matter of record only.

New issue — 1st October, 1986

UBS Union Bank of Switzerland

U.S. $150,000,000

Union Bank of Switzerland Finance N.V.

7 per cent. Guaranteed Notes due 1989

unconditionally guaranteed by

Union Bank of Switzerland

Issue Price 101 per cent.

Union Bank of Switzerland (Securities) Limited

Commerzbank Aktiengesellschaft — Merrill Lynch Capital Markets
Morgan Guaranty Ltd — Nomura International Limited
S.G. Warburg Securities

Algemene Bank Nederland N.V. — Julius Baer International Limited — Banca della Svizzera Italiana
Banca del Gottardo — Bank Cantrade Switzerland (C.I.) Limited — Bank of Montreal Capital Markets Limited
Banque Bruxelles Lambert S.A. — Banque Internationale à Luxembourg S.A. — Banque Nationale de Paris
Banque Paribas Capital Markets Limited — Barclays de Zoete Wedd Limited
Baring Brothers & Co., Limited — Bayerische Landesbank Girozentrale
Bayerische Vereinsbank Aktiengesellschaft — Berliner Handels- und Frankfurter Bank
Citicorp Investment Bank Limited — Compagnie de Banque et d'Investissements – CBI
County NatWesr Capital Markets Limited — Crédit Commercial de France — Crédit Lyonnais
Credit Suisse First Boston Limited — Daiwa Europe Limited — Dresdner Bank Aktiengesellschaft
EBC Amro Bank Limited — Generale Bank — Genossenschaftliche Zentralbank AG – Vienna
Goldman Sachs International Corp. — IBJ Ioternational Limited — Kleinwort Benson Limited
Kredietbank N.V. — Kowait International Investment Co. s.a.k. — Leu Securities Limited
Lloyds Merchant Bank Limited — LTCB Ioternational Limited — Mitsubishi Trust International Limited
Samuel Montagu & Co. Limited — Morgan Stanley International — The National Bank of Kuwait S.A.K.
The National Commercial Bank (Saudi Arabia) — The Nikko Securities Co., (Europe) Ltd.
Norddeutsche Landesbank Girozentrale — Orion Royal Bank Limited — J. Henry Schroder Wagg & Co. Limited
Schweizerische Bankgesellschaft (Deutschland) AG — Schweizerische Hypotheken- und Handelsbank
Swiss Bank Corporation International Limited — Swiss Volksbank — Westdeutsche Landesbank Girozentrale
Wood Gundy Inc. — Yamaichi International (Europe) Limited

INTL. COMPANIES and FINANCE

BHP share sale renews talk of another Bell move

BY CHRIS SHERWELL IN SYDNEY

MR ROBERT Holmes à Court, the Perth-based entrepreneur, appeared to be poised yesterday to acquire more shares in BHP, Australia's largest corporation, following an unexpected agreement with the seller of a 5 per cent stake in the company.

Analysts were last night puzzling over the full implications of the deal, which was struck between Mr Holmes à Court's Bell Resources and Equiticorp Tasman, part of the business empire controlled by Mr Allan Hawkins, the New Zealand entrepreneur.

Mr Holmes à Court, as a result of a bid he made for BHP earlier this year, is already effectively the company's largest shareholder, with a 28 per cent stake held through the Bell group.

Elders IXL, headed by Mr John Elliott, holds 18.5 per cent, having reached a stand-off in a fight with Bell for control of the steel, mining and petroleum conglomerate.

Under a peace pact reached in September, both Mr Elliott and Mr Holmes à Court came onto BHP's board and agreed to terms concerning any further acquisition of BHP shares.

Yesterday's announcement was said by Bell not to be in breach of the spirit of that agreement, which requires that any increase in Bell or Elders' shareholdings to be through a full cash bid or a partial bid pre-approved by shareholders.

Details were limited, however. A joint statement from the two sides said Bell and Equiticorp had entered into an underwriting agreement to facilitate the placement of Equiticorp's BHP shares at any time before March 16.

"Any profit above the agreed underwriting price will accrue to Bell Resources Ltd as an underwriting fee," the announcement said. No figure was given for the price, but analysts speculated that it was unlikely to be less than A$... per share.

In an apparently contradictory amplification later, moreover, Bell said that it was not acting as a principal and was "not required to take up any shortfall." The company also said it did not have the power to direct the shares to any party.

The deal means that a proposed offshore convertible bond issue for Equiticorp's BHP shares, first announced last month, has been cancelled. That could upset overseas investors who hoped to invest in one of Australia's best-known corporate institutions.

For Equiticorp Tasman, the disposal of the BHP stake and of a significant shareholding in ACI, another major corporation, are expected to produce a A$60m (US$39.2m) gain. This week, the company reported a net loss of A$42.2m for the six months to September.

Australian Woolworths stake goes to Rainbow

By Our Financial Staff

RAINBOW, the acquisitive New Zealand retailing, amusements and property group, is paying A$190m (US$124m) for the 20 per cent stake in Woolworths, the Australian retailer, put on to the market several months ago by Safeway Stores of the US.

The deal, which is subject to the approval of the Australian Foreign Investment Review Board, would leave Rainbow holding a stake in Woolworths of equal size to that owned by Mr Ron Brierley's Industrial Equity Limited. Rainbow is paying A$3.83 apiece for the 44.5m Woolworths shares changing hands and A$19m for other assets involved, according to Macquarie Bank, its financial adviser.

Safeway originally offered its stake in Woolworths (which has no connection to either the US or UK groups bearing a similar name) as a result of the management buyout last summer which left the big US supermarket group with a heavy debt burden on its balance sheet. It is understood to have been anxious to complete the disposal before the end of this year in view of recent changes in US tax legislation.

Philippines to sell $7bn of state assets

By Richard Gourlay in Manila

THE PHILIPPINES Government yesterday launched a drive to sell some $7bn of non-performing assets held by two government banks.

President Corazon Aquino signed a decree transferring the assets to a trust for disposal and announced, before potential buyers, a plan to privatise government corporations.

Some 40 bankers and brokers attended the conference to launch the asset disposal programme. The Government expects to net over five years 25-35 per cent of the $7bn book value at which the assets are held in the books of Development Bank of the Philippines and the Philippine National Bank.

Many businessmen present said the conference was premature, since the Government has not yet sufficiently audited and taken stock of the companies to establish exactly what potential buyers would be bidding for.

By breaking out the non-performing assets, the Government has accepted the book losses on their sale directly in the national Budget. The banks' reluctance to accept book losses in the past slowed the sale of the assets at market value.

Wooltru and Pep plan to merge

BY JIM JONES IN JOHANNESBURG

WOOLTRU AND PEP Stores, two leading clothing retailers, are negotiating a merger which will result in South Africa's largest clothing retail group. Merger terms have not yet been agreed. The two companies have a combined turnover in the region of R1.2bn ($545.5m) against the R860m of Edgars, their nearest rival.

Wooltru's business is split between fashion goods and non-fashion items targeted at comparatively affluent South Africans. However, a change of direction was hinted at by Mr David Sussman, the chairman, last month when he told shareholders that the company wanted to enter the black retail clothing market. Economists believe that the spending power of black South Africans will exceed that of whites within 10 years.

In contrast to Wooltru, Pep has lower income groups as its target market and has trading presences in many of South Africa's small country towns. The company claims that its 545 retail outlets are the most widespread in the sub-continent. Pep operates seven factories making non-fashion goods.

AE South Africa back to profits

BY OUR JOHANNESBURG CORRESPONDENT

ASSOCIATED ENGINEERING South Africa, the 78 per cent-owned subsidiary of Associated Engineering of the UK, continued to suffer from depressed trading conditions in the year to September 1986. It nevertheless increased sales and returned to pre-tax profits.

Turnover rose to R58.6m ($26.4m) from R48.3m, the operating profit before tax and interest quadrupled to R6.3m from R1.5m and a pre-tax profit of R4.9m was earned against the previous year's R3.2m loss.

Sir John Collyear, the chairman, attributes the profit recovery to the corporate restructuring of the past year and disposals of troubled divisions. He says that the motor vehicle industry has remained depressed but that the threat of sanctions has presented South African motor component manufacturers with local market opportunities.

Earnings were 8 cents a share against last year's deficit of 4 cents. Dividend payments have not been resumed, but Sir John hopes that this will happen in the current financial year.

Malaysia's Companies Bill tightened

MALAYSIA'S Parliament has approved the Companies (Amendment) Bill 1986, AP-DJ reports from Kuala Lumpur.

The Bill, among other things, is aimed at checking the activities of irresponsible company directors and protecting the interests of shareholders, particularly minority shareholders.

Under the amendments, it is mandatory for a company director to seek approval from a general meeting of the company if he obtains or transfers any property.

The Government argues that the amendments are necessary because company directors, who are often also majority shareholders, have been selling property to their companies at high prices or buying company property at low prices.

It will also now be mandatory for prior approval to be given at a general meeting of the company for the purchase of property with high value.

To prevent company directors from giving loans or security for such loans to their relatives, a new section of the Bill requires the denoting of the relationship of companies placed under receivership.

The amendments provide for the Government to set a limit to wage and compensation to be paid to workers of such companies.

Under the Bill, a company under receivership should first settle the salaries and compensations of its employees before attending to other debts.

Kanebo slides in first half

BY YOKO SHIBATA IN TOKYO

KANEBO, the Japanese yarn-spinning and pharmaceuticals group, has reported a 34 per cent drop in pre-tax profits for the six months to October, to Y2.72bn ($16.7bn) from Y4.1bn in the same period of last year.

The company blamed its poor performance on operating losses in its synthetic fibres division and to a deterioration in its financial items arising from the cost of absorbing its textile manufacturing division.

Half-year net profits fell by 21 per cent to Y1.7bn on sales of Y161.6bn, down 4 per cent from the previous period, as a result of shrinking sales of textile materials.

For the year as a whole, the company is predicting pre-tax profits of Y3.5bn and net profits of Y1.3bn on sales of Y338.3bn.

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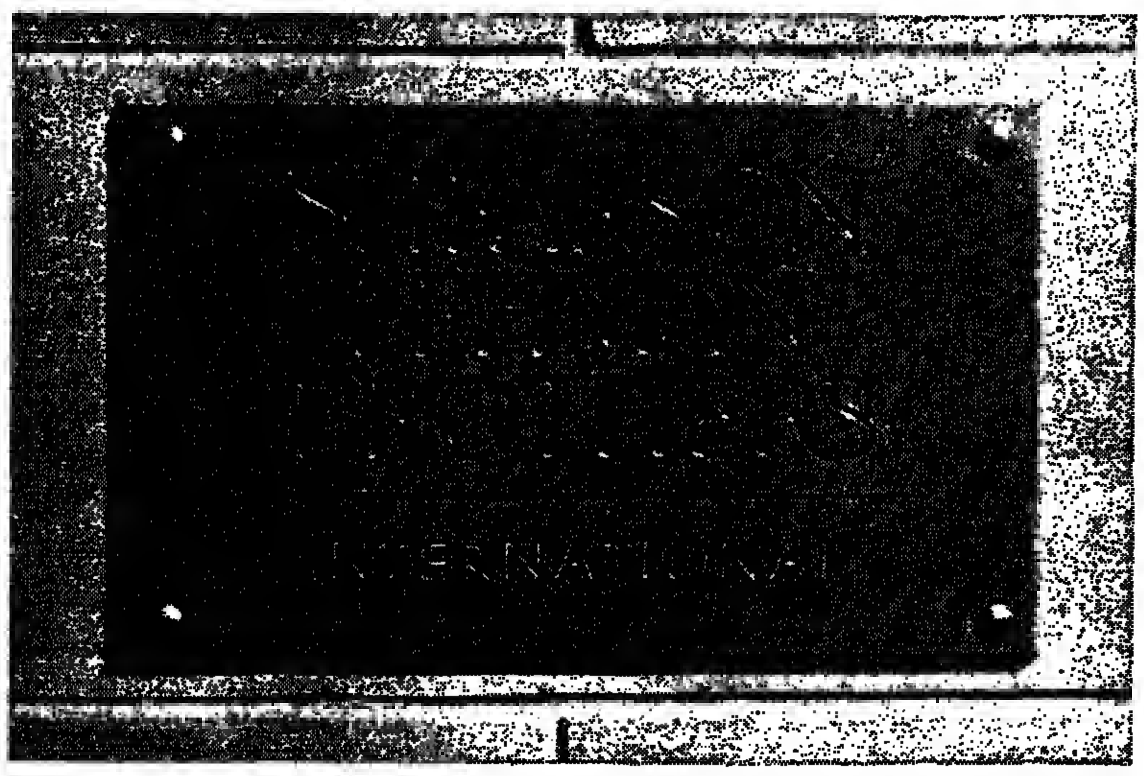

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James Buchan looks at high-yield securities in the wake of the Boesky affair

Junk bond market weathers the storm

FOR A $120bn market that depends on a single firm—and a single man—for much of its liquidity and supply, junk bonds are doing pretty well.

They are doing especially well now that both Drexel Burnham Lambert and Mr Michael Milken, the 40-year-old Drexel executive who all but invented the modern junk bond, have received subpoenas from the Securities and Exchange Commission to give evidence to the investigation into the Boesky affair, Wall Street's largest insider trading scandal.

In an opaque market, where there is no central exchange and dealers have an interest in maintaining confidence, it is not easy to establish what has happened since November 14, the day Mr Ivan Boesky, a well-known Wall Street investor and a Drexel client, announced he had agreed to pay $100m in cash and assets and co-operate in an insider trading investigation by the Securities and Exchange Commission.

Dealers say that the market immediately lost from 2 to 4 points, but had made half of that up again by the end of last week. Mr Fred Joseph, chief executive of Drexel, told a meeting of securities analysts last week that trading volume was down "50 per cent on the first day. However, it is back to normal volume now."

He added that there had been some $2.5bn in new issues since November 14, including the $1bn debenture from Safeway, the supermarket group, which Drexel started marketing that very day.

Dealers and analysts give a host of reasons for the market's resilience. A number of large junk financings were scrapped, such as a $4bn bid for Gillette from Mr Ronald Perelman, while others were delayed. "All the supply was on the counter," says Mr Robert Wallace, of Fort Hills Investors.

The specialist mutual funds, which stayed out of the market in the face of uncertainty and some institutional redemptions, are now buying again. Above all, "Drexel and the others were willing to make markets in depth," says Mr Mike Lipper, of Lipper Analytical Services, which follows the 52 specialist mutual funds invested in junk bonds.

Junk bonds, or high-yield securities as Mr Joseph and Mr Milken prefer to call them, are corporate debt instruments that the credit rating agencies assess as "below investment grade" because the issuing companies might not meet interest or principal payments. The bonds now yield an average of 350 to 450 basis points more than Treasury bonds of similar maturities, but the range is dizzying: LTV, the steel company which sought Chapter 11 protection from its creditors last summer, yields about 35 per cent.

Ten years ago, the market consisted largely of debt securities of once-proud companies that were down on their luck: so-called fallen angels. That was before Mr Milken, who is credited with discovering that a default rate as low as 1 per cent was more than discounted by high yields, started issuing junk bonds for companies that could not otherwise have access to term finance.

JUNK BOND ISSUES	Number	Value $bn
1980	46	1.38
1981	37	1.28
1982	56	2.50
1983	98	7.53
1984	133	14.11
1985	185	14.75
1986*	210	29.83

* To December 4. Source: IDD Information Services

Since 1984, Mr Milken has transformed the market—and in the process has turned himself into possibly the best-paid investment banker in the US—by selling high-yielding bonds as a means for corporate raiders, and shell companies without earnings and assets, to leverage up on the assets and cash flow of target companies. From an office on Wilshire Boulevard in Beverly Hills, Mr Milken and his colleagues may have had a hand in up to 60 per cent of all new issues.

He has found a ready home for the bonds among insurance companies and thrift institutions desperate to maintain returns against falling interest rates, pension plans, the mutual funds and even the public directly. They have not been a particularly good investment: over five years, they have underperformed Government bonds—and even the specialist mutual funds monitored by Lipper have lagged Government funds this year.

"But people looked at their CDs and saw that they used to pay 9 and now pay 6, and they go for the yield," says Mr Jim Grant, who runs Grant's Interest Rate Observer and is an outspoken bear on junk bonds.

Mr Milken is still accorded a key role. There was a new bout of jitters in the market last Friday when there were rumours that he might be further embroiled in the SEC's investigations. "Typical issues fell a point to 1½ points on Friday," says Ms Nancy Bolmeir, a secondary market trader at Merrill Lynch. The rumours have since subsided.

But dealers and analysts are unanimous in believing that the market will hold up even if Drexel should become less active. They cite a host of reasons, among which:

● There are few major investment banks not involved in trying to generate handsome commitment and brokerage fees from junk financings. "If Drexel slows down, the others will jump in," says Mr Dick Swingle of T. Rowe Price, the Baltimore mutual fund group.

These would include such names as Morgan Stanley and First Boston. While Drexel may dominate the primary market, it probably accounts for "considerably less than 50 per cent of the secondary market," says Mr Swingle. "Even if the worst happens to Mr Milken, then other capital would be committed to the market," says Ms Bolmeir of Merrill Lynch.

● The present crisis has nothing to do with the investment merits or demerits of the bonds themselves. "It's not the bonds under a cloud but the bankers," says Mr Grant. "But their day will come. At the moment, attention is being distracted to Beverly Hills from where it belongs, which is the balance-sheets and income statements of the companies."

Mr Lipper agrees: "If there is a problem with this paper, it will come with the next recession."

Convertible Eurobond for Dixons well received

BY HAIG SIMONIAN

DIXONS, the fast growing British consumer electrical retailer, yesterday launched a convertible Eurobond, led by S G Warburg Securities, which was quickly increased from $60m to $68m. Final terms were swiftly brought forward.

Issued in the name of Dixons Group (Capital) and guaranteed by the parent company, the par priced 2002 deal has a 6/ per cent coupon. The exercise price is 367p, representing a 11.89 per cent premium over yesterday's closing share price in London of 328p.

Dixons will be using the proceeds to bolster its capital base. The company is now capitalised at about £1.4bn in the market against shareholders' funds of just £172m.

Though Dixons' shares, standing at 330p, are some way below their 448p high at the turn of this year, the lead manager reported very strong demand, with paper being sold heavily into continental Europe. Undeterred by the clouds over sterling, investors appear to have seen the deal as an appealing way into Dixons' shares at an attractive yield.

Yesterday's all-out fire drill in the London Stock Exchange building did not deter one tenant, UBS Securities, from launching a $150m 1994 equity warrant issue for Jacobs Suchard International Finance (Cayman), a financing arm of the Swiss food group.

The issue, priced at an indicated par, carries an indicated coupon of 3½ per cent. The paper offers investors an unusual warrant exercise structure. Each $5,000 bond has five "A" warrants, exercisable for

INTERNATIONAL BONDS

four years into one of the company's bearer participation certificates (BPCs) at no premium. Each bond also carries five "B" warrants. These can be exercised for six years into one BPC, but at a premium of approximately 5 per cent.

The flexible structure appealed to investors, who are also drawn by the present healthy state of the Swiss equity market. The issue was trading at 102½ to 103¼, according to the lead manager.

The borrower will also be tapping the DM market later this week with a small Deutschemark equity warrant issue, to be led by Deutsche Bank. Warrants from the DM deal will be fungible with those in yesterday's deal.

Regie des Telephones et Telegraphes (RTT), the Belgian public telecommunications authority, issued a $100m 7½ per cent 1992 bond, priced at 100¼, and led by Chase Investment Bank.

This swap-driven deal is very similar to that led by Chase for RTT two months ago, apart from its slightly longer maturity. The issue will not be listed, though it will otherwise trade like normal Eurodollar paper, and was being quoted by the lead manager at less 1½.

Daiwa Europe led a $50m 1992 equity warrant deal for Meiji Milk Products, a leading Japanese dairy company. Guaranteed by Dai Ichi Kangyo, the par-priced paper has an indicated coupon of 3¼ per cent.

This is the borrower's first Euromarket deal, and appears to have got off to an auspicious start: buoyed by its strong equity price of Y859, paper was changing hands for plus 5½ bid by yesterday afternoon.

Secondary market trading in both fixed and floating-rate dollar denominated Euro-issues was muted yesterday. Prices for straight bonds were little changed to a shade firmer, in quiet volume.

Hard on the heels of this week's other Ecu deals, Industrial Bank of Japan launched a Ecu 80m 7½ per cent 1994 deal, priced at 100¼. Led by IBJ International, the paper was being quoted at less 1½ bid during speculation.

In the D-mark primary market, DG Bank led a DM 200m floating-rate 1997 note for the African Development Bank. The par priced paper pays a spread of ¼ per cent over six-month London interbank offered rate. Total fees are 35 basis points. The paper was quoted at about 99.85 bid yesterday afternoon.

Merrill Lynch debt rating lowered

MOODY'S Investors' Service, the New York credit rating agency, has placed the long-term debt of Merrill Lynch, the biggest US securities firm, under review for possible downgrading. Some $6bn worth of Merrill's securities would be affected, Our Financial Staff writes.

The downgrading, which would inevitably be seen as a severe loss of face for the big Wall Street firm, was prompted by concern at the business conditions it now faces,

Although it acknowledged Merrill's strong recent earnings performance, Moody's said it was concerned about the growth of the firm's fixed operating costs and the effect of these costs on earnings during a cyclical downturn of the securities markets.

Pallas buys Berisford Cresvale

BY CLARE PEARSON

PALLAS, the financial house established in April 1984 by Mr Pierre Moussa, the former Banque Paribas chairman, is taking a controlling stake in Berisford Cresvale, the market-maker specialising in international equities and equity related instruments. Berisford Cresvale is a subsidiary of S & W Berisford, the UK commodity trading group.

Pallas will obtain its stake through a new company formed jointly with S & W Berisford, which will subscribe substantial amounts of additional capital in Berisford Cresvale. The capital restructuring will include incentive issues of equity to the existing management of the company.

S & W Berisford currently holds 76 per cent of Berisford Cresvale's equity.

Pallas, an international investment holding company, said yesterday that it had been looking to invest in a "niche" area of the international capital markets. It considered that Berisford Cresvale's specialist operations in equity related bonds and international equity offered substantial scope for expansion. The company declined to comment on the role Mr Pierre Moussa would play in the enlarged operation.

Mr Pierre Moussa, chairman of Pallas

In April of this year Pallas sold its 50 per cent stake in the London branch of Dillon, Read, the New York investment banking group, to Societe Generale de Belgique. Its association with Dillon, Read had stretched back almost to Pallas' founding. Mr Pierre Moussa remained as chairman of the London operation of Dillon, Read.

In October Pallas acquired a 17 per cent stake in Compagnie Financiere Tradition, the Lausanne-based interbank money broker. The stake has since been increased to around 20 per cent.

Yves Saint Laurent placement

By Alexander Nicoll, Euromarkets

FURTHER DETAILS emerged yesterday of the financing of Yves Saint Laurent's acquisition of Charles of the Ritz from Squibb.

Credit Suisse First Boston is arranging a $100m private placement of a package of equity-related securities to complement the $465m of bank credit facilities announced last week and $175m of equity contributions to the specially created financing vehicle, YSL International. YSL, the French privately-owned cosmetics and fashion concern, and its financing vehicle both plan to go public within the next few years.

The package consists of $75m of 6 per cent equity notes maturing in 2002 and repayable in ordinary shares of YSL International. The shares in which the notes will be repayable will represent 26.3 per cent of YSL International.

Secondly, about 1.65m ordinary shares of YSL International are part of the package. They will be priced at FFr 100, and will make up 9.2 per cent of YSL International.

Thirdly, warrants are being issued to subscribe to 15 per cent of YSL itself. Holders will be entitled to subscribe for shares at 90 per cent of the public offering price.

Separately, Swiss Bank Corporation's International yesterday launched an international share offering for Koninklijke Wessanen, a Dutch food products manufacturer. It is offering 1m bearer depositary receipts to be priced on December 12. Yesterday, the company's share price was at Fl 82.4. The shares being offered are newly issued and will make up 7.4 per cent of the enlarged equity.

The shares will be sold in European countries using SBCI's system in which each manager is responsible for placing shares in its own country.

● International Commodities Clearing House (ICCH), which clears futures exchanges in London and elsewhere, is investigating the development of a trade confirmation and matching system for Eurobonds, designed to reduce Eurobond houses' costs.

Euro-clear, the Brussels-based clearing system, said yesterday however that it was proceeding with similar plans in consultation with the Association of International Bond Dealers and Cedel, the Luxembourg-based clearer.

Values surge on Bombay stock market

By R. C. Murthy in Bombay

VALUES ON the Bombay Stock Exchange, India's largest, surged for the second successive day yesterday, as investment institutions continued to purchase shares selectively.

The statement of Mr Rajiv Gandhi, the Prime Minister, that his government would introduce measures to restore investors' confidence in the market bolstered sentiment. The BSE index for 30 sensitive shares was up 18.30 points to 515.81 on top of an 11-point increase on Monday.

Mr Gandhi said the stock exchanges faced a crisis because of panic selling of some high-stocks. The basic reason for the trouble was absence of adequate arrangements to ensure proper regulation and control of stock exchanges, he said. "The Government intends to bring forward comprehensive legislation for the orderly regulation of stock exchanges" and to clean up trading practices, he said.

The government is concerned that there is no legislation to regulate insider trading and speculative deals which hurt genuine investors.

AfDB completes $300m programme

BY PETER BLACKBURN IN ABIDJAN

THE AFRICAN Development Bank, which launched its first subordinated Deutsche mark floating-rate note yesterday, has now completed its $300m 1986 borrowing programme.

The AfDB is due to raise its capital in the first half of next year, following a recent recommendation by an ad hoc committee of its board of governors that a 200 per cent increase be carried out. Authorised capital will be raised to $19.6bn from $6.5bn, though only a small fraction of this will be paid up initially, with the remainder callable.

The capital increase is intended to support a $7.8bn 1987-91 lending programme by the AfDB—nearly double the previous programme. A much higher proportion will also be funded from external borrowing.

The new issue means that about 20 per cent of the AfDB's outstanding debt of some $1.5bn is now subordinated. The AfDB was the first development bank to introduce the concept of subordinated debt in 1984, when it decided to use this form of capital as a means of adding to its borrowing capacity without jeopardising its high credit ratings.

Subordinated debt is tied to the capital of the 50 African borrowing member countries of the AfDB. It ranks on an equal basis to senior debt except when recourse is made to the callable capital of the bank.

FT INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market.

Closing prices on December 9

US DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Amer. Express 7¾ 93	100	†97⅞	98⅜	e	+0⅛	8.03
Australia Com. 11 95	200	116¼	116⅝	−0⅛	+0⅛	8.24
Australia Com. 13⅛ 00	100	115½	116¼	−0⅛	−0⅛	[illegible]
BP Capital 9¼ 96	100	105¾	106¼	0	+0⅛	7.97
British Telecom 7¾ 96	250	97⅝	98⅛	0	+0¼	7.94
Campbell Soup 10½ 95	100	113	113½	+0⅛	+0⅛	8.30
Canada 9 96	1000	107⅞	108⅜	+0⅛	+0⅛	7.76
Canadian Pac. 10⅛ 93	100	109⅝	109¾	−0⅛	0	8.25
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
AB Electrolux 14½ 90 A$	50	100½	101½	−0⅛	+0¼	13.78
Amatil Fin. 14¾ 90 A$	40	†99¾	100¾	+0⅝	+0⅝	14.65
Bremer Ldsbk. 12¾ 92 A$	30	98½	99½	−0⅛	−0⅛	13.00
Fiat Finance 14½ 89 A$	50	101⅛	102¼	−0⅛	+0¼	13.44
GMAC 12¾ 89 A$	40	97⅝	98⅝	0	−0¼	13.73
Landsbk. Rhein. 13 89 A$	30	96⅞	97⅞	−0⅛	−0⅜	14.55
Canadian Pac. 10⅛ 90 C$	75	†106¼	107¼	0	+1⅛	8.15
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CONVERTIBLE BONDS	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Fujitsu 3 99	5/84	1320	151⅛	152½	+4½	14.50
Minolta Camera 2¼ 94 DM	2/86	1105	†98⅞	99½	+0⅝	54.90
Mitsubishi Bank 2⅞ 00	8/85	1768	150½	152	−0¼	4.68
Mitsubishi Trust 2½ 01	5/86	1600	150	151⅝	−0⅝	−10.88
Mitsui Bank 2⅝ 01	4/86	101.9	128¼	129¾	−0¼	−90.22
Mitsui Trust 2⅞ 01	10/86	1990	102	103	−1⅛	2.86
Murata 3½ 00	7/84	2998	183⅝	185⅝	—	—
Nippon Elec. 2⅞ 00	1/85	1295	252⅝	253⅝	−0⅞	241.78
Nippon Oil Co. 5 00	5/85	923	218⅞	220⅝	+1	−2.73
Oki Elec. Ind. 3½ 99	10/84	805	†126¼	128	+0½	9.05
Sanwa Bank 2¾ 00	10/85	1486	147	148½	−1½	3.29
Sumitomo Bank 2¾ 00	8/85	2142	160	161½	−1	5.12
Toshiba Ceramics 3 00	4/85	1794	121⅝	122⅝	+0⅝	4.44
Nippon Oil Co. 2⅛ 92 SFr	3/84	1052	*†132½	132½	e	−4.29
Nippon Shinpan 2 92 SFr	3/84	801	*†179½	179½	e	11.67
Asics 5 92 DM	12/83	520	†132½	133½	+1	5.15

* No information available—previous day's price.

† Only one market maker supplied a price.

Straight Bonds: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week=Change over price a week earlier.

Floating Rate Notes: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte=Date next coupon becomes effective. Spread=Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=The current coupon.

Convertible Bonds: Denominated in dollars unless otherwise indicated. Chg. day=Change on day. Cnv. date=First date for conversion into shares. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

Granada advances 43% to £92m

BY LISA WOOD

THE Granada Group, with interests in television, bingo and motorway services, yesterday described a 43 per cent increase in pre-tax profits to £92.4m for the year ended September 27, 1986, as a breakthrough in profits.

The results, well in line with City expectations, come after a year in which the company successfully fended off a bid by the Rank Organisation and consolidated its recovery strategy after the downturn in profitability in 1983.

Earnings per share grew by 69 per cent to 21.3p, but this increase was exaggerated by including 14 months of overseas rental income and failing to exclude losses suffered in Belgium and the US in 1985 from businesses since sold. The underlying rate of growth was just more than 30 per cent, adjusting for these two factors.

The final dividend is raised to 5.48p (4.57p) making a total of 8.52p (7.1p).

Turnover increased by 10 per cent from £767m to £841m, a total which includes an extra two months of Granada's overseas rental businesses. Excluding the additional two months the increase in pre-tax profit was 41 per cent.

In the UK profits from TV and video rental and retail contributed £40.7m, an increase of 22 per cent on the previous year. Profits were driven, said Granada, by a full-year's benefit from the integration of the Rediffusion business and the acquisition of Telebank, the slot-meter TV rental company.

In the face of a slow decline in the overall market for TV rental Granada has converted 550 of its 650 UK shops into rental and retail outlets, a process which was completed this autumn. Mr Derek Lewis, finance director, said that since the end of the financial year the group had acquired Laskys, the audio-visual chain.

Growth in overseas earnings from TV rental and retail, at £20.8m pre-tax (£14.4m) was assisted by the elimination of losses of about £2m in the US rental business and exchanges rates.

Mr Alex Bernstein, chairman of Granada Group

Television broadcasting and production, with a turnover of £197.5m (£176.4m) contributed £18m, an increase of 67 per cent. Net advertising revenue at £128m was up by 20 per cent.

The leisure and consumer services division, which includes Granada theatres, bingo clubs, and motorway services, had a turnover of £160.3m (£148.3m), contributing a 36 per cent increase in profits at £19.4m (£13.5m). During the year the division opened five bingo social clubs and opened its first two Granada Lodge hotels at Stirling and Exeter service areas. A new acquisition was Park Hall, a multi-activity leisure site.

Services to business, the last leg of Granada's four major development areas, showed 16 per cent growth in profits to £1.7m, the most significant development being the move into third party computer maintenance.

Total net borrowings were £99.1m (£67.4m) with a gearing of 27 per cent, only slightly up on that of 1985 because of a re-evaluation of trading properties.

See Lex

Battle for APV cost Siebe £10.5m

By Clay Harris

Siebe said yesterday that its unsuccessful bid for APV Holdings had cost £10.5m, more than half of its interim pre-tax profits of £20m.

The safety products and engineering group's 32 per cent profits advance in the six months to September was achieved on sales 74 per cent ahead at £236.4m (£135.9m). The Siebe and Tecalemit companies, which had been part of the group for all of the comparable period, increased sales by 5 per cent and profits by 15 per cent.

Siebe took an extraordinary charge reflecting a loss of £5.7m on the sale of its 27.5 per cent stake in APV and costs of £4.8m related to the takeover battle.

"We will think hard before we make a hostile UK bid," Mr Barrie Stephens, chief executive, said yesterday.

He defended the decision to sell the stake in the engineering company at a loss in September, more than two months after the £220m bid failed. "If we'd held on to it for another week, we'd have lost (another) 20p a share."

The disposal also freed nearly £50m to apply towards the subsequent $466m (£317m) acquisition of Robertshaw Controls, the US controls system group which will lift North America's contribution to 32 per cent of turnover and 40 per cent of operating profit. It will be included in the accounts for the final five months of the financial year.

CompAir, bought from IC Gas in July last year, contributed £8.64m in profit, against £1.01m in two months of the comparable period. This helped the engineering division to lift profits to £12m (£4.2m) on turnover of £168.8m (£74.3m). Deutsche Tecalemit, acquired in November last year, contributed £871,000 in pre-tax profits.

Profits from electronics and controls rose to £893,000 (£276,000) on sales of £13.4m (£7.2m). Safety products were hits by currency movements in North America, with profits of £5.96m (£5.76m) on turnover barely changed at £42.4m (£43.1m).

Siebe's textiles and polymers divisions, which operate principally as in-group suppliers, reported profits of £671,000 (£252,000) and £199,000 (£192,000) on respective sales of £9.09m (£9.82m) and £1.75m (£1.41m).

The company reported a £222,000 profit on property sales, and Mr Stephens said that he expected US property disposals to raise $50m throughout the next few years.

Siebe has completed the acquisition for £2m from GKN of the garage equipment operation of Laycock Engineering, a business with annual turnover of £6m.

Siebe is recommending an interim dividend of 4.69p (4.08p).

● comment

The Siebe treatment achieved the expected turnround at CompAir, but the stakes are much higher at Robertshaw. On it rests the ambition to develop controls as the second core business, alongside engineering, leaving safety products somewhat on the epriphery. At the price Siebe paid, Mr Stephens will never be able to say, as he does of CompAir, that the US company was a "steal." After only six weeks, however, the pace of change is remarkable, with Robertshaw eerving as vehicle for wholesale corporate restructuring and consolidation of US administration and manufacturing. Benefits may well accrue earlier than even the more optimistic had expected. On that basis, even those who might have wished more from the non-CompAir businesses found themselves firming full-year forecasts towards £60m, where the market's confirming 20p rise to 803p puts the shares on a prospective p/e of 11.5.

Norcros returns £20m profit but fails to meet City expectations

Norcros, the building products, print and packaging group, failed to meet City expectations when it returned pre-tax profit of £20.1m—up from £18.5m—in the six months to September 30 1986. Analysts had been looking for a figure of between £21m and £22m.

Group turnover moved ahead from £304m to £312m.

Mr Ken Roberts, the chairman, said the group was making good progress in developing its core activities and in building on the base established in recent years.

Norcros benefited from an extraordinary credit of £4.2m (nil) which comprised the surplus from the sale of UBM Glass less the closure costs of Lowton Metals, the Butterley Foundry operation and the costs of relocating John Smith (Keighley) to Ripley.

The group's ongoing capital investment programme accounted for £7m during the first half and was expected to take a further £17.5m in the second period, with the programme continuing into next year. This was likely to increase the group's gearing from 46 per cent to 50 per cent at year end.

The building products and services division, which consists of the former ceramics, construction and engineering sectors, produced unchanged operating profit of £9.2m on turnover of £114m (£121m). The division had reduced its involvement in engineering by selling and closing some interests while Butterley Engineering had been repositioned in this sector.

Profit from ceramics remained flat while window and concrete concerns revealed better performances.

The group's print and packaging interests saw operating profit move up from £3.9m to £5m on turnover ahead at £35m (£30m).

Norcros' distribution interests, which include UBM, advanced operating profit to £4.5m from £3.2m on turnover of £118m (£106m). However, the comparative figure is not for the full six months as UBM was acquired during that period.

Profit for the group's international division was down from £2.7m to £2.3m on turnover of £27.5m (£29m) due to the devaluation of the Nigerian Naira.

Head office contributed operating profit of £1.4m (£988,000), largely as a result of property development.

Contributions from Norcros' associated companies were down sharply to £923,000 (£2m). Darlington and Simpson, a company owned jointly with British Steel, was hit by downturns in two large markets: the US, by the performance of the dollar; and Iraq, where demand fell off considerably.

Mr Roberts said that Norcros did not expect any improvement from associated companies in the second half but was taking steps not involving redundancies to reduce costs.

Tax was unchanged at £7.7m and earnings per 25p ordinary share amounted to 9.47p (8.56p). The interim dividend rose to 3p (2.8p).

Norcros shares closed down 2½p at 255½p.

See Lex

ICI Canadian offshoot suffers sharp profit falls

By Bernard Simon in Toronto

CIL, Canadian chemicals group 73 per cent owned by Imperial Chemical Industries, has halved its quarterly dividend in the wake of intense competition in several of its business sectors and a sharp fall in profits.

The Toronto-based company said that the common dividend payable next January would be cut from 20 to 10 cents a share. Preferred dividends were not affected.

The company's earnings fell to C$16m (£8.2m) in the first nine months of this year from C$34.5m in January-September 1985, on almost unchanged sales. Income in the third quarter was nil, Mr C. H. Hantho, chairman, said yesterday that fourth quarter profits were also likely to be well below last year.

We blamed the deterioration mainly on a severe squeeze on prices and margins in the company's agricultural division, which manufactures fertiliser products. Ammonia prices have sunk so low that they barely cover variable production costs.

Conditions were also difficult in the explosives and specialised chemical businesses, which supply the hard-pressed North American mining and energy industries.

Tricentrol slips further into red

BY LUCY KELLAWAY

Tricentrol, the ailing UK independent oil company, yesterday published third quarter figures which showed a loss after tax of £4.2m, compared to a profit of £4.1m in the same period of 1985.

The latest figures have been prepared excluding the company's US assets, which were sold last month for £60m, and turnover on that basis tumbled from £23.4m in the third quarter of last year to £4.9m.

In the UK, Tricentrol was hit not just by the fall in the oil price—which in the first nine months averaged £9.71 a barrel compared to £20.65 in the same period last year—but by a decline in oil production, which so far this year is down by 10 per cent. As a result of maintenance work in the Thistle field, third quarter production was 19 per cent below the same period last year.

In the first nine months, the company generated £8m cash after tax, compared to an after-tax cash flow in 1985 of £82m. However, the amount of expenditure was also cut drastically. Without outgoings on exploration and development of £9.4m, expenditure emerged more than 65 per cent lower than the 1985 figure of £27.2m. The company said that the forecast 30 per cent cut in overheads had been achieved.

The third quarter figures contain an extraordinary loss of £58.9m relating to the sale of the US assets.

For the first nine months, turnover fell from £76.9m to £33.7m, while a profit after tax last year of £18.2m was this time translated into a loss of £5m.

● Tricentrol's shareholders are interested in one thing only: whether or not the company will be taken over. Thus the market's disapproval of these results, which reveal little either to attract or repulse a possible bidder, is hard to understand. Perhaps the glimpse of the company stripped of its US assets served as a reminder both of its historic want of exploration successes—which have given it a cost base so high that profits at present oil prices are unthinkable—and of the impossibility of financing costly development projects on its more recent exploration successes. While the sale of the US assets has bought Tricentrol some time, it has not bought it very much. Gearing is still about 130 per cent, and although the sale will have turned a cash drain of about £30m this year into a small surplus, the huge capital projects in the bag will force further asset sales before long. That is unless Tricentrol is put out of its misery altogether by someone altogether bigger and stronger. For such a prospect the shares wait at 59p, down 2p on the day.

BOARD MEETINGS

TODAY

Interims:—Airsprung, Anderson Strathclyde, Associated British Engineering, BTP, Booth Industries, Celestion Industries, Charter Consolidated, Dentand Stamping, Equity Consort Investment Trust, Havelock Europe, M and G Second Dual Trust, Priest Marians, Reed Executive, Samuelson, Tex, Thorn EMI, York Trust.

Finals:—Albion, Associated Paper Industries, Baggeridge Brick, Crystalate, Guinness, Irish Distillers, McCarthy and Stone, Micro Scope, Stakis.

FUTURE DATES

Interims:—

AIM	Dec 19
Barclays	Feb 26
Baspak	Jan 14
BPP	Dec 16
Great Universal Stores	Dec 11
London Merchant Securities	Dec 16
Tops Estates	Dec 18
Yellowhammer	Dec 11

J A Devenish lifts profit by 33%

JA Devenish, the brewing and leisure group formed by the merger of Devenish, the West Country brewer, and Inn Leisure, the pub and wine bar operator, yesterday announced a 33 per cent increase in pre-tax profits to £6m for the 1985-1986 financial year.

The merger took place in March. Since then the group has revised its management structure and begun to overhaul the Devenish brewery and its state. The management changes took place in June, so this set of results bears the benefits of only three months of the new management.

The board expects some of the benefits of the merger and subsequent changes to filter through in the current financial year, and for the full benefits to emerge the following year.

In the Devenish estate, the company has adopted a policy of renovating the pubs—about 50 houses will be refurbished in the current financial year — and changing aopropriate houses from tenanted to managed pubs.

At the brewery in Redruth, Cornwall, which has been rechristened the Cornish Brewery Company, the workforce has been rationalised, distribution partially contracted out, and a product development programme stated. Four new cask-conditioned beers have already been introduced.

The new management team has reviewed the property portfolio and intends to use the proceeds of property disposals to help to fund its capital expenditure programme.

Unsuitable houses will be sold and Devenish has applied for planning permission for a housing development on the site of its disused brewery in Weymouth. In 1985-86 it produced profits of £1.6m (£1m) from propetry disposals.

In the year to September 30, Devenish increased group turnover to £37.6m (£34m) and trading progt to £5.2m (£4.1m). Operating profit rose to £6.7m (£5.1m).

The company incurred an extraordinary debit of £79,000 (compared with an extraordinary credit of £229,000) because the profit from the sale of a retail property development did not quite offset redundancy and merger costs.

Basic earnings per share increased to 11.14p (8.77p). The board proposed payment of a final dividend of 2.15p (2.05p).

● comment

On the surface at least Devenish and Inn Leisure were improbable merger partners. As a traditional West Country brewery with an all-too-traditional (in the unfashionable aense) estate, Devenish had little or nothing in common with Inn Leisure, which had sprung up from the cut and thrust of London pubs and wine bars. Yet the logic of Inn Leisure injecting its marekting expertise into the Devenish estates seemed sensible enough. Inn Leisure has already begun to uncover oak beams and inglenook fireplaces, but it will take rather longer than three months of new management for the benefits to feed through. The combination of low borrowings and disposable properties has armed it with the capital to expand and the City expects a rise in profits to £8.5m in the current year. This leaves the shares, which fell by 9p to 203p yesterday, fully valued on a prospective p/e of 13, at least until the real benefits of the merger can be measured.

Compco profits reach £360,000

With net rental income rising from £354,000 to £426,000, Compco Holdings, property investment and development group, reported a pre-tax profit of £360,000 for the half year ended September 25 1986, compared with £305,000.

The results reflected increases from purchases and other activities and a dividend from the 20 per cent holding in W and F Fish.

In the current half further acquisitions were made. They have increased indebtedness to £2m and borrowings will rise further with anticipated increases in expenditure on refurbishment and improvements.

Therefore, interest charges in the period will be significantly higher than the first (£26,000), offset partly by increased gross rental income which now exceeded £1m annually.

While the company would concentrate in the short term on maximising the potential of the new acquisitions, further purchases would be made where opportunities arise.

Shires earns more: £2m write-down

Shires Investment lifted its earnings from 5.09p to 7.44p per 50p share in the half year ended September 30 1986. It has declared a second interim dividend of 3p, making 6p so far and forecasts a total of 13.8p for tha year.

The company said it remained determined to sell the US venture capital stocks—these were acquired by British American and General Trust shortly before Shires took it over. Thay bad not been a great success and have bean written down by £2m to £1.8m.

It would seek realistic prices so that reinvestment could be made in high yielding stocks. This was essential, the company stressed, as it intended to increase its dividend in the year ahead.

Total revenue in the half year came to £3.27m (£1.95m) and the pre-tax profit to £1.65m (£712,000).

At September 30 the net asset value was 244p, against 219p, and 219.78p (207.13p) fully diluted.

Burgess Products up

Burgess Products, precision electrical and electronic component maker, made an excellent start to tha current yeer, Mr Bob Morton, chairman, told the annual meeting.

Profits for the first quarter were substantially ahead of the comparable period, and that augured well for a much improved performance in the first half.

The chairman said ne was in no doubt that the year would he another of sustained profit growth.

Helical buy-out

Negotiations have been completed for a management buy-out of Helical Reinforcements from its parent company, Helical Bar. Ashfield Holdings and Co, established for the purpose by the existing management and backed by investors, is paying £741,601 cash, together with 32,000 "B" cumulative convertible redeemable preference shares in Ashfield for the Helical subsidiary.

Helical Reinforcement is engaged in the supply and fabrication of steel reinforcement products and is based in Sutton Ashfield, Notts.

Kennedy Smale

Kennedy Smale achieved a 42 per cent improvement in pre-tax profits for the six months to September 30 1986, and directors expect the profits trend to continue for the remainder of the current year.

With turnover ahead by 54 per cent at £5.14m (£3.34m), the pre-tax result for this West Midlands-based holding company came out at £769,000 against £540,000.

UK COMPANY NEWS

David Goodhart on the build-up of St Ives as a predatory printing group

Relishing the acquisition chess game

MR BOB GAVRON, the urbane chairman of the St Ives printing group, gives the impression that he has acquired a corporate empire in a fit of absence of mind.

Nothing, of course, could be further from the truth. But chance has certainly played its part in tha rise of St Ives—one *of the highest new entrants* (at 363) in this year's UK FT 500.

Mr Gavron himself, a youthful 56, came late to the industry. After a brief legal career he raised £400,000 to complete a management "buy-in" of the *CP Printing Group* at the age of 33.

A few small acquisitions and several years later St Ives was floated on the stock market in September 1985 valued at £18.3m. Just over one year after that it passed the £100m capitalisation mark and now bas another major acquisition in its sights.

The five-fold increase bas been due to St Ives' ability to take advantage of the restructuring of the printing industry over the past few years. The investment needed to stay competitive has ruled ont continned independence for many middling sized print groups and St Ives bas moved in to scoop them up — thus becoming a major force in books and magazines to add to its own general commercial printing interests.

It has had a number of advantages in this operation. Being far from a large company itself St Ives has not threatened to swamp those it takes over and has been careful to retain its image as the "good guys" of the industry by not launching any contested bids.

Thus wbe Richard Clay, the UK's largest book printer, sought an escape from McCorquodale's hostile bid last year it found St Ives an attractive alternative—after prompting from publishers such as Penguin.

In the case of Chase Web Offset, St Ives' other major buy, it was a private company looking to go public or sell-out which saw St Ives as a suitable home.

St Ives' reputation is not simply based on being in hte right place at the right time.

UK's biggest bible printers—boosting its exports and now accounting for over 20 per cent of turnover.

The diversification is enthusiastically endorsed by Mr Gavron: "Bibles are a counter-*cyclical* God-send. *If you'll* excuse the pun. They keep us busy in the October to February period which is usually quiet and if there's one thing people will go on buying in a depression it's The Bible."

Nevertheless here bas, according to Mr Gavron, been considerable room for improvement

> 'We only want to acquire things that are at the top end of their market. But we're only scratching the surface at the moment in print'

In the manner of Coloroll (another FT 500 new entrant) *in the ceramics industry, St* Ives has shown that it can successfully apply its financial and marketing know-how to the sound but technology-led companies of an old industry.

Richard Clay is a case in point. After heavy investment in the early 1980s Clay has been able to cut its production *times for a hard back book from* two months to two weeks and *for a paperback from two weeks* to—in exceptional circumstances—as little as 24 hours. The instant book on the Chernobyl disaster went from author's manuscript to book form in less than three days.

Prior to St Ives' arrival Clay *had also become one of the* at Clay. He says gross margins on a paperback ought to *be about 30 to 35 per cent leaving* a 15 per cent profit margin after subtracting overhead costs, but at Clay the net margins were less than half 15 per cent when St Ives arrived.

Clay now turns out about 1.5m paperbacks each week (on top of the 250,000 hard-backs) and Mr Gavron has taken several steps over the past year to help push up the returns on those books.

At Clay's main plant at Bungay, in Norfolk, Mr Gavron boasts he has cut the number of entrances from 63 to three: simplified the production process; continued to cut staff numbers which nn wstand at 790 compared with 1,170 in 1982; closed a subsidiary in Gateshead and the head office in London end pulled out of a prestigious but costly joint venture in China (*selling out to Robert Maxwell*).

In additiou the joint managing directors Mr Ken Pardey end Mr Gary Iceton (a Harvard educated ex-compositor) have been given far more antonomy and, they claim, far better management information.

"To be honast before St Ives came along it was a bit like *driving* in the dark without lights," says Mr Pardey. A new finance director has also been hired to supplement the work of the existing one.

The results of this reorganisation are difficult to gauge. St Ives recently reported pre-tax profit of £8.5m on turnover of £69.4m (compared with £2.5m on £18.3m in 1985) but claimed that without the savings from Clay *it would have been* hit by the general downturn in book publishing.

But *according to Mr Gavron*, who is also a non-executive director of publishers Octopus, the key to St Ives is its marketing skills.

"Publisbers do not generally know very much about marketing so we ask the retailers what they want and then make sure the publishers give it to them. Its a sort of go-between role," he says.

St Ives is now itching to apply these skills to a wider range of printing companies. It has little room for expansion in book printing but its highly profitable magazine printing operation is still less than half the size of Maxwell's despite winning 50 new contracts in the *last four months.*

Mr Gavron who clearly relishes the acquisition chess-game—" I've got nothing else to do" can afford to be choosy given the high rating St Ives enjoys.

"We only want to acquire things that are at the top end of their market. But we're only *scratching* the surface at the moment in print; we have nothing, for example, in packaging, stationery or security printing," says Mr Gavron.

The most likely plan is to pick up a few more small agreed deals and then, within the next six to 12 months, make a bid for a *major* security printing or packaging group such as DRG or, less probably, De La Rne.

St Ives' progress bas to date been remarkably smooth. However, *it* is going to face two problems in the near future. First its commitment to agreed deals makes it undnly reliant on other *people. Second it may* find itself driven by market expectation onto the acquisition treadmill.

Bnt with the directors owning one-third of St Ives Bob Gavron should be able to realise bis refreshingly relaxed ambition to improve the company every year "and to bave fun doing it."

Burns leaps 88% to £1.7m

BY CHARLES BATCHELOR

Burns-Anderson, the financial services and motor *distribution* group which is fighting off a £21.3m takeover bid, yesterday announced an 88 per cent rise in pre-tax profits to £1.77m in the year ended September 30.

The publication of Burns' results coincided with the posting of the formal offer document by Dudley, a private company *owned by two West Midlands* property developers, Mr Roy and Mr Donald Richardson.

The profits rise at Burns was in line with its earlier forecast of an increase to at least £1.7m. It made £940,000 pre-tax the year before.

Earnings per share rose by 30 per cent from 4.7p to 6.1p and a *final dividend of 1.88p* after 1.35p at the interim stage *is proposed. Turnover rose from* £37.4m to £43.9m.

Financial services now contribute more than half of the profits while the motor distribution, steel and shopfiting operations are all trading profitably, the company said.

Mr Ivor Black, chairman, said: "The £2.3m financial resources we no whave as a result of our October rights issue ensures we are confident of further grotwb in profits in the coming year."

The Dudley offer document showed that *it* has taken *its stake in Burns to 9.22 per cent* while Regentcrest, which is acting in concert, has a *further* 9.52 per cent.

Dudley said that despite two rights issues in the past 14 months Burns was too diversified to fully realise its potential from the cash which had been raised.

It promised a review of Burns' divisions to decide which could be *expanded*, floated off or disposed of by way of sale or management buy-out. The financial and management resources released would then be concentrated on the remaining core activities, it said.

Dudley is offering 103½p cash for each Burns share and will also allow Burns' share*holders to retain the expected* 1.65p final dividend. Burn's shares closed unchranged at 111p.

GST board responds to rejigged Mowlem bid

BY NIKKI TAIT

The board of Glasgow Stockholders Trust has backed the bid from John Mowlem, the construction group, *following* certain revisions in the offer terms. If successful, Mowlem plans *to* liquidate the GST's portfolio, raising about £55m to reduce its debts.

Mowlem has agreed to prodnce an offer for the GST preference shares; to come forward with proposals for the early repayment of the debenture stock; and to extend the cash alternative offer until December 30. There have also been certain reinterpretations of formula asset value calculation, on which the offer depends.

The extent to which this last concession altered the value of the hid was unclear.

The GST board's recommendation epplies only to the cash alternative offer which, it claimed, is "one of the highest *to have been received in recent* years by an investment trust."

It made no recommendation as far as the *Mowlem* share exchange is concerned.

The directors also added that they "deplore the prospect of the liquidation of the company and its investment portfolio to enable an *industrial company* to meet its cash requirements."

As a guide in its offer document, *Mowlem estimated* that formula asset value on November 18 was 166p, and under the terms of the cash alternative offer GST shareholders were entitled to 99.5 per cent of this figure—which would have worked out at 165p.

B&C in control of Steel

BY CHARLES BATCHELOR

British & Commonwealth Shipping, the financial services and transport group, bas clinched its agreed bid for Steel Brothers Holdings with the purchase of just over 1 per cent of its shares to take its holding, including undertakings to accept, to 50.5 per cent.

In the B&C offer document posted yesterday Steel forecast that pre-tax profit in 1986 would fall to "not less than" £11.5m compared with £11.8m in 1985. Earnings per share would fall more steeply, however, from 47.9p to not less than 36p.

B&C bas added a loan note alternative to the existing cash and share alternative bid. It is *offering 630p of 10 per cent* loan notes for each Steel share with a final redemption date of December 1996. The loan notes would not be listed.

B&C owned 45 per cent of Steel when it first announced its agreed bid on November 14. It bought a further 142,500 shares at 630p each on Monday.

Asprey lifts profits to £6.3m halfway

Asprey, goldsmith, jeweller and antique dealer, improved pre-tax profits by 13 per cent *to £6.3m in the six months to* end-September 1986, against a previous £5.55m.

The interim dividend is unchanged at 3.5p, which will be paid from higher earnings of 21.18p (17.66p) per share.

Turnover for the period rose from £23.16m to £27.58m. The tax charge was £2.43m (£2.29m), and last time there was an extraordinary £32,000 debit.

The company's shares are quoted on the USM.

J. BIBBY AND SONS has sold a subsidiary, Bytech Group, to the USM company Electron House for £3.3m in shares which are being placed by Chase Manhattan Securities at 120p.

Allied Colloids leaves S Africa

BY DAVID GOODHART

Allied Colloids, the Cleckheaton-based industrial chemicals group, has become the latest UK company to pull out of South Africa.

Allied said yesterday that it had begun negotiations to sell its 100 per cent owned South African subsidiary — Allied Colloids (SA)—to the South African company Speciality Chemicals.

It would not be drawn on the price it hoped to get, but stressed that its profit before tax represented less than 5 per cent of Allied Colloids group profit for the year to March 29 1986 of £19.5m.

Mr Gordon Senior, finance director, said the South African political situation had been a factor in deciding to sell. He said: "We had an offer from Speciality Chemicals and bearing in mind the ramifications, we thought it was an opportune time."

TURRIFF CORPORATION has conditionally agreed to acquire Whittall (Holdings), a building contractor based in Birmingham, for some £450,000. There is a further conditional payment of a maximum of £75,000 deferred until April 1988 and dependent upon profits for 1987.

COMPANY NEWS IN BRIEF

F. & C. ALLIANCE INVESTMENT: net asset value prior charges at nominal value 152.7p (110p) for six months to October 31 1986. Interim dividend 0.63p (0.58p). Franked income £517,000 (£460,000); gross revenue £1.52m (£1.17m). Revenue attributable to shareholders £578,000 (£497,000) after tax of £266,000 (£240,000). Stated earnings per share 1.27p (1.09p).

THORN EMI has acquired Granada-Telerent AB from Granada for £3.75m cash and repayment of loans totalling £1.45m. *It specialises* in television and video rental in Sweden, and will become part of the Thorn EMI Hyr-TV chain.

TANJONG TIN DREDGING *estimates* that its pre-tax losses before exchange adjustments will be reduced from £272,500 to £64,000 in the six months to June 30, 1986. Sales of tin concentrates were substantially lower at just £8,000 compared with £212,000. The loss from the mine after allowing for depreciation and expenditure in the UK was £97,500 (£304,500). Interest and dividends received amounted to £32,500 (£32,000). The loss per share was down from 18.3p to 4.3p.

BZW Securities, announced *yesterday* that it currently holds a 21.7 per cent stake in Save and Prosper Return of Assets Investment Trust (SPRAT). BZW *also* holds 285,000 warrants in SPRAT, carrying the rights to subscribe for ordinary and preference shares between 1990 and 1995.

WEBCO GROUP, the Scottish *rubber moulding company*, bas purchased the business of Rnbber and Injection Moulding. RIM has a turnover of about £1m. Last week Webco bought ITS Rubber, which makes rubber and rubber-to-metal bonded components.

Wardell Roberts (food distributors): Interim dividend 0.9p (*0.67p*) *on* increased *capital, for* six months to September 26. Turnover I£8.37m (I£8.65m) and pre-tax profits I£650,000 (I£338,000). Tax of I£195,000 (I£105,000). Earnings per share 2.9p (1.9p). Second balf ontlook *favourable*, acquisitions expected.

MOORGATE INVESTMENT *Trust—Gross* revenne *half* year ended November 30 1986 was £560,000 (£492,000) and net revenue £353,000 (£307,000) for earnings of 7.58p (6.58p) per share. Interim dividend 5p (4.5p). Net asset value 497.4p

ICI has, through insurance subsidiary Imperial Chemicals Insurance, acquired specialist reinsurance Delta International Reinsurance Co. It will retain its own underwriting team operating from its City base. *Cost of* the acquisition amounts to less than I per cent of ICI's assets.

UK COMPANY NEWS

Meyer lifts profit 53% as Magnet takes stake

Meyer International, the timber and builders merchant yesterday announced interim pre-tax profits 53 per cent higher and also revealed that Magnet & Southerns, a rival builders merchant and retailer had acquired a 1 per cent stake.

Mr Ronald Groves, the chairman, of Meyer, said that the company had learnt on Friday that a nominee for Magnet had bought 100,000 shares and had since added a further 950,000. Magnet's finance director, Mr G. H. Brown, said the stake was a "trade investment" and added "at the moment, our intention is not to take things any further." Analysts felt any bid would be ruled out by monopoly considerations and the shares ended 5p lower at 291p.

A pick up in the construction industry, along with firmer timber prices, were credited by Mr Groves as being behind the improvement in pre-tax profits from £13.22m to £20.21m, on turnover only 8 per cent higher at £301.9m (£278.5m).

Meyer is currently undergoing a pension holiday which will last until the end of the next financial years and which boosted profits by around £1m this half. Property sales also added £1.193m to these figures and the company expects a similar profit in the second half.

In November, the £17.7m acquisition of Brownlee, a Glasgow-based timber and merchants group, was completed and Meyer expects trading profits to cover financing costs in the second half.

With trading continuing well, Meyer was looking for a good second half and was on course for a record year.

The interim dividend is stepped up from 1.95p to 2.15p, to be paid from earnings per share of 14.35p (8.79p). For 1985-86 a total dividend of 5.75p was paid when profits were £32.1m (£30.3m).

For the half year to September trading profits moved ahead from £15.15m to £19.87m. There were profits of £1.2m (£236,000) on sales of tangible assets, and the pre-tax result was struck after reduced interest payments of £968,000 (£2.17m), and a £47,000 (£6,000) share of profits of related companies. Tax took £6.37m (£4.75m).

● comment

Pension holidays, property profits, higher timber prices, building booms—everything was conspiring to boost Meyer's profits this half. Building merchanting is becoming steadily more important to the group—Jewsons' turnover passed 50 per cent of UK sales in these figures—and that should reduce the worst cyclical influences on Meyer's results. For the full year, Meyer should be able to hold on to its increased margins and post £43m pre-tax. There will come a time when market factors will not be so much in Meyer's favour and thus the shares do not seem particularly underrated on a prospective p/e of 9.5. Guessing at Magnet and Southerns' intentions is obviously difficult but a bid from it seems fairly unlikely so perhaps it is best to view the stake as a vote of confidence from a knowledgeable rival.

Strong assurance

Strong and Fisher, which had its £20m bid for fellow leather manufacturer Garnar Booth referred to the Monopolies and Mergers Commission last month, has given undertakings that it will not increase its stake in its target beyond 17 per cent, or exercise voting rights on behalf of more than 15 per cent of the shares.

When the bid was referred to the Commission, Strong held a 14.99 per cent stake but in mid-November purchased a further 1.4 per cent holding through the market.

Standard Chartered takes 13% stake in Abaco

BY CHARLES BATCHELOR

Standard Chartered, the banking group, is to provide £18.8m of funds to Abaco Investments, the fast growing financial services company, in a move which will give Standard a 12.7 per cent stake in Abaco.

The capital will be used initially to help finance the acquisition, announced yesterday, of Hampton & Sons, an estate agency based in St James's, London, for up to £15m. It will also wipe out borrowings used to fund two other recent acquisitions.

It gives Abaco a second large corporate shareholder alongside British & Commonwealth Shipping, which has been a long term investor. B & C's shareholding will fall from 27.4 to 23.36 per cent as a result of the Standard deal. Both have said they would not make a hostile bid for control for at least three years.

Mr John Gunn, B and C chief executive, said that if B and C had provided the additional funding it would have taken its stake above the 29.9 per cent level at which a mandatory takeover bid would have had to be made. B and C did not want this and welcomed Standard as a second major shareholder, he added.

Mr Michael McWilliam, Standard's managing director, will join the Abaco board. He described the Abaco share purchase as an extension of its existing involvement in financial services through its Chartered Trust subsidiary. "It is a toe in the water," he said.

Chartered Trust is a hire purchase and finance company which has been developing loan programmes for building societies and insurance products. Its network of 70 offices and its customer base overlap with those of Abaco, Mr McWilliam said.

Standard will also contribute to a £40m loan facility which Abaco will draw on to finance further acquisitions. Loan facilities are at present provided by Den norske Creditbank.

Abaco had been planning a share placing when Goldman Sachs, the US investment bank, introduced Standard which was prepared to take up all the new shares. Mr Peter Goldie, chief executive of Abaco, said Standard will take up 25.4m new shares at 74p each.

The size of the Standard shareholding has been determined by the takeover panel limit on initial acquisitions of company's shares of 15 per cent. This becomes 12.7 per cent of Abaco's enlarged capital.

Hampton is the third estate agency to be acquired this year by Abaco and brings it 18 more offices handling residential property sales, bringing the total to 57. Hampton made a profit, before non-recurring items and tax, of £777,000 on turnover of £6.8m in the year ended September 1986. It gives Abaco its first central London chain of agencies.

Abaco is paying £10.5m on completion, comprising £7.85m cash and £2.65m in shares. It will pay an additional £4.5m in shares if profits of Hampton rise to £1.32m in the year ending September 1987.

Abaco's shares rose 2p to 69p.

All-round lift gives Vaux £17m

ALL TRADING divisions of the Vaux Group improved their performance in the year ended September 27 1986, resulting in turnover moving ahead from £144.7m to £163.5m and the pre-tax profit from £14.72m to £17.52m.

And the directors said they had ambitious plans for growth in all divisions over the next few years. The balance sheet was relatively ungeared and they believed there were good opportunities for expansion in many areas, including nursing homes.

In pursuance of the latter, they were planning to convert the St. Andrews Hotel into a nursing home, and operate it for older people. If that was successful they said they intended to extend the group's interests "in what we believe will be a fast growing market."

In the year just ended breweries made £8.98m (£8.27m) profit, Swallow Hotels £7.58m (£6.65m), wines and spirits £1m (£753,000), disposal of properties and investments realised £733,000 (£441,000), related companies £655,000 (£287,000), and investment income £423,000 (£656,000). Finance charges were cut from £2.34m to £1.86m.

Earnings came to 31.6p (28.3p) and the final dividend is 8.32p for a net total of 12.5p, compared with 11.061p. There was an extraordinary debit of £686,000 being the provision for closure of Lorimers and Darleys Breweries (£897,000, less tax £209,000).

The directors expected to spend around £25m on capital account next year. Some £15m would go on Swallow, covering the bulk of the additional expenditure on the two new hotels due to open in 1988, and developments to existing hotels, including three further leisure centres.

Expenditure on public houses would absorb £6m and much of the balance would go on brewery developments.

The group approached 1987 with a confidence reinforced by a good start to the current trading year, they said.

● comment

"At Vaux," said chairman Paul Nicholson yesterday, "We believe that the soundest way forward is through organic reinforced by friendly acquisition." Unfortunately for him not every company shares the Vaux view on non-aggressive growth and rumours abound that the group is about to be subjected to a hostile takeover bid. These figures gave Vaux strong defensive ammunition. The earnings per share growth of about 11 per cent was better than most expected and there are encouraging signs for the current year in all three divisions. Analysts are expecting about £19.5m at the pre-tax level, which on yesterday's close of 477p, down 7p, puts the shares on a multiple of about 13.5. Bid prospects explain virtually all of the premium which Vaux enjoys to the sector average. But shares in the company, which has reported profits increases for the last 18 years in a row, are a solid investment opportunity.

Booming house demand lifts Berkeley up to £3m

Berkeley Group, the housebuilder and property developer, saw pre-tax profit climb substantially from £1.7m to £3.1m in the six months to October 31 1986 on turnover that was boosted from £13.2m to £21m.

Mr Jim Farrer, the chairman, said that the group, which had moved up to a full stock market listing in December 1985, had benefited from firm demand for its homes and good performances had been achieved by all the operating subsidiaries.

He added that the interim results had included the first profit contribution—of £120,000—from the group's related company, Berkeley Speyhawk, currently developing a residential site in the Thameside Conservation area.

Mr Farrer reported that forward sales stood at a record level and he viewed the future with optimism.

Tax rose to £1.1m (£667,000), and earnings per share emerged at 6.3p, up from a figure of 4p, adjusted for a one-for-one capitalisation issue. The declared interim is 0.85p up from an adjusted 0.7p.

Osborne & Little up 26%

DESPITE CHARGING £165,000 exceptional expenses for the opening of the US branch, Osborne and Little lifted its pre-tax profit by 26 per cent in the six months ended September 30 1986.

From turnover up 44 per cent to £3.81m, this producer of wallpapers and furnishing fabrics made a profit of £508,000 (£404,000). Earnings per 5p share worked through at 4.62p (3.31p) and the interim dividend is raised to 1.3p net (1p).

Sir Peter Osborne, the chairman, said in line with the usual trend he expected sales and profits to be higher in the second half. For the full year ended March 31 1986 sales were £6.3m and profits £1.24m.

The shares are quoted on the USM.

He said the New York showroom opened in June and by the end of September agents had been appointed in 12 principal cities of the US. In the second half the group would enjoy a full six months trading on a nationwide basis.

Sir Peter expressed confidence that the US operation would prove a major source of revenue in future because of the healthy gross margin that could be obtained there.

Exports, including sales to the US branch, rose by over 50 per cent, and the pattern looked set to continue throughout the whole year, Sir Peter claimed.

He said initial response to the new ranges launched in October had been encouraging.

W. Alexander up 20% to £2m

A 20 per cent increase in pre-tax profits, up from £1.67m to £2m, was matched by a similar increase in the interim dividend from Walter Alexander, coachbuilder, for the six months to September 30 1986.

Turnover fell marginally from £30.04 to £29.24m and the directors said that was because of the effect of the lower fuel prices on the group's liquid fuel distribution division. However, volume sales for that division increased considerably which should stand it in good stead when fuel prices increase.

Farming interests have now been disposed of, and the sale of the farms, together with the release of the working capital involved, produced about £3m.

Looking ahead, the chairman, Mr Ronald Alexander said: "The withdrawal from farming marks a significant stage in the rationalisation of the group and there are opportunities for expansion by acquisition currently under examination.

"As far as the current year is concerned, the outlook is for a further increase in the profits of the group."

Stated earnings per share of this unquoted company improved from 3.9p to 5p.

ALFRED PREEDY & Sons (convenience stores, newsagents): Interim dividend 1p (same). Pre-tax losses £304,000 (£323,000) on turnover £38.68m (£55.9m) for six months to September 27 1986.

Whitecroft up 31%: calls for £15m

BY ALICE RAWSTHORN

Whitecroft, industrial holding company, is planning a one-for-three rights issue to raise £15.2m to reduce the borrowings incurred by its recent acquisition and capital expenditure programme. The company also reported a 31 per cent increase in interim pre-tax profits to £3.6m.

In the past 18 months Whitecroft has spent £5m on acquisitions, the bulk invested in the purchase of two lighting companies, MD Lighting and Energy Conservation Systems, and £5m on capital for new business ventures within the group.

An additional £9m has been invested in the property division. This has increased group borrowings by £17m in the past 18 months, leaving gearing at 64 per cent.

The company will issue 7.5m new ordinary shares at 210p a share. Its share price fell by 13p to 247p on the announcement yesterday. The issue is underwritten by the merchant bank, J. Henry Schroder Wagg with Alexanders Laing & Cruickshank and Henry Cooke, Lumsden acting as stockbrokers.

After the issue gearing will be reduced to about 16 per cent.

The company then intends to embark upon further acquisitions, principally of privately-owned compaoies in its existing fields of specialist textiles, lighting and building supplies. It has retained a 12 per cent stake in Eleco Holdings, the construction, engineering and property company, since its unsuccessful takeover hid in August.

Mr Thomas Weatherby, Whitecroft's chairman, said that the company intended to retain its stake in Eleco and would "keep an open mind on whether to renew its hid. The cost of the original hid was included in the interim results as an extraordinary debit of £765,000.

In the six months to September 30 group turnover rose to £53.9m (£48.7m). In the textile division operating profits rose to £1.4m (£1.2m) and in lighting to £1.6m (£974,00). Operating profits in the property division were relatively flat at £327,000 (£311,000) and fell in the building supplies businesses to £582,000 (£801,000) largely because of the disruption to trading caused by the transfer of one company from one site

Earnings per share rose to 10.0p (7.1p) and the company proposes to pay an interim dividend of 3.0p (2.5p). Mr Weatherby described the pattern of trading in the opening months of the second half as ancouraging and expressed his confidence about the prospects for the full financial year.

● **comment**

Ever since the failure of its bid for Eleco, Whitecroft has been bandied about as a takeover target. The company explains the recent rise in its share price as the product of institutional interest aroused at the time of its overtures to Eleco. Certainly companies in imminent danger of takeover tend not to flood the market with extra paper. The fall in the share price yesterday was prompted as much by disappointed hid expectations as by concern over post-rights dilution. Whitecroft seems to have succeeded in resolving last year's problems in its lighting division, and building supplies should return to profits growth in the second half. Textiles is faring well and the benefits of the £5.5m investment at Edward Hall will filter through from next summer onwards. The City expects profits of about £9m for the full year leaving the shares on a prospective p/e of 10.5. Whitecroft is rather too colourless a conglomerate to have ever emerged as a City favourite, but at this level the p/e looks undemanding.

Compsoft deeper into red at £145,000

By Janice Warman

Compsoft Holdings, the computer software group which ran up a £50,000 loss in the 1985/86 financial year, has plunged further into the red in the six months to end-September with a loss of £145,000 on largely static turnover.

By September last year, higher operating expenses and the cost of setting up the group's five subsidiaries in Europe had cut first-half pre-tax profits to a virtual break-even figure of just £2,000.

Distribution and administration costs, plus slower growth in the micro-computer market accounted for its £50,000 year-end loss to April this year.

Mr Nick Horgan, chairman, said the culprit this time was largely higher marketing costs to promote its products in Europe, now that all five subsidiaries were fully operational.

But he said the picture since September had improved. "Sales in Europe are climbing. For the last two months, expenditure and income have been about even. As we get our new products into the market, we would expect to move into profit."

The UK showed a £29,000 loss on paper as against £77,000 last time

Turnover has remained flat at £1.1m, while operating costs rose to £1.1m from £972,000. Western Europe made a loss of £138,000 against £82,000 profit, and other countries showed a £22,000 profit against £47,000. The total loss per share was 2.1p against nil.

Exchanges hit Tace but order books rise

ALTHOUGH PRODUCTS of the Tace group continued to sell well internationally during the 1985-86 year adverse foreign exchange fluctuations left profits at the pre-tax level just £386,000 higher at £3.5m.

Second half profits were static at £179,000.

The directors said yesterday that but for the exchange rate movements full year profits would have been more than £1m higher. Some 40 per cent of group sales were denominated in US dollars, compared with 31 per cent in 1984-85.

For the 12 months to September 30, 1986 turnover rose from £20.14m to £22.05m and gross profits from £7.35m to £8.77m—the group manufacturers electronic, electrical and mechanical control equipment.

Distribution and administration costs rose to £1.98m (£1.74m) and £2.94m (£2.28m) respectively and interest charges took £135,000 more at £347,000.

Tax, however, was redneed to £819,000 (£1.12m) and left net profits at £2.68m compared with a previous £2m. Minorities accounted for £574,000 (£625,000.)

Earnings improved from 21.41p to 30.07p and a final dividend of 5.68p raises the net total by 1.87p to 8.52p.

There were extraordinary debits of £496,000 (credits £1.88m), being start-up costs, reorganisation and product rationalisation costs and deficits on disposal of interests in and trading assets of subsidiaries.

The 1985-86 results included a full year's contribution from Anderson Instruments of the US (two months in 1985) and the disposal of the Dutch and Belgian businesses.

The directors said that the group's financial strength had enabled it to expand its product range during the year and provide a foundation for future growth. They added that the balance sheet continued to show a strong financial position.

Increased order books were seen during the early months of the current year. The group continues to seek further complementary acquisitions to augment growth of its existing activities.

● **comment**

In the last few years, Tace has depended heavily on its majority (now 52.5 per cant) stake in Goring Kerr for growth and the Andersen acquisition was designed to diversify the group. However, both Goring Kerr and Andersen are dollar-orientated and the decline in the US nnit wiped £1m off pre-tax profits. This year, orders are picking up for Goring Kerr's new detector products and that company could hit £2.5m pre-tax. For the Tace group as a whole, £4m looks probable with a small increase in demand for Andersen's pollution control systems. The latter's tax control should also boost Tace's earnings per share and probably indicate that Tace's shares, up 20p to 360p and on a prospective p/e of 11 are more attractive than Goring Kerr's at 270p up 25p and on a multiple of 10. Any dollar rebound conld give those ratings a boost.

Stormgard slides into the red

Stormgard, the investment holding company, reported a loss before tax of £193,000 in the six months to September 30 1986 compared with a profit of £371,000 in the nine months to September 30 1985.

The loss reflected difficult trading conditions experienced by the fashion sector of the group and the directors said that performance during the second half was not expected to improve significantly. Only in 1987-88 were the benefits of the group's reorganisation expected to come through.

They said that the group's borrowings had been halved. Stocks were heing reduced as planned and they expected borrowings tn be reduced further in the second half. Modernisation of production facilities had lowered costs and then enhanced design capability of the group had enabled a number of new ranges to be introduced.

As the group pension arrangements were in substantial surplus, contributions by the group were suspended and had saved £125,000 this time.

Turnover, inclnding full figures for the Selincourt Group which Stormgard purchased last year, rose to £24m (£11m). After £2,000 tax (£12,000) losses were 0.15p (0.99p earnings). There was again no dividend.

● Stormgard has disposed of its remaining holding of 671,250 (9.7 per cent) ordinary shares in Frank Usher, the company it sold in January 1986. The shares have been placed with institutions.

Northamber advances 21%

Northamber, the supplier of computer printers and peripherals, reported pre-tax profit up by more than 21 per cent from £829,000 to £1m in the half year to October 31 1986. Turnover moved ahead substantially to £12.5m from £9.2m.

Mr David Phillips, the chairman, said that overheads had been kept under control during the period but there had been some pressure on gross margins from the smaller, weaker distributors' attempts to retain market share.

He said that the company's policy of controlled diversification with further organic growth of its trading activities and product ranges was continuing.

Mr Phillips said Northamber would continue aggressively to seek further opportunities to expand its markets and with an infrastructure in place to support this growth be was confident of a satisfactory outcome for the year.

After tax charges of £340,000 (£327,000), earnings totalled 8.3p, up from 6.8p reported last time.

McLeod Russel falls to £10.5m

ALTHOUGH THERE has been some improvement in recent months, low average tea prices during the first half affected full year results at McLeod Russel where pre-tax profits fell from £14.3m to £10.49m.

Turnover for the year ending September 1986 was down at £27.25m (£28.55m). McLeod is a holding company with interests in plantations, property development, manufacturing and trading.

For the current year, Mr John Guthrie, the chairman, said that on the basis of present price levels, he would expect group profits to show an improvement.

The total dividend for the year is lifted to 8.3p (7.5p), with an increased final of 5p (4.5p). The directors are also proposing a one-for-three scrip issue.

In the UK action was being taken to improve the performance of T. and R. Williamson, acquired in March 1985, which incurred losses of £145,000.

In Australia the poor cotton price has continued into the current season, the chairman said. Advantage has been taken of the recent improvement in the cotton price by making forward sales but it was too early to forecast the result for the current year, he added.

Although lower profits from Kenyan coffee were expected for the current year, that should be partly offset by improved results from tea.

In Zimbabwe, the chairman stated that the problems concerning the significant increases in wage levels had been resolved at least for the time being, the effects being largely offset by the devaluation of the Zimbabwe dollar against sterling.

Tax for the year fell from £7.59m to £4.74m, and after minorities of £80,000 (£11,000) and preference dividends, attributable profits worked through at £5.23m (£6.25m). Earnings per share fell from 77.4p to 63.97p.

The chairman said the company continued to seek suitable opportunities to expand the group.

Midsummer Inns profits up to £1m

SUBSTANTIAL progress was made by Midsummer Inns, which owns and manages public houses and discotheques, in the year ended September 30 1986. Turnover rose from £4.3m to £6.93m and pre-tax profit from £401,000 to £1.04m.

Furthermore, the current year had started well, said Mr Adam Page, chairman. A number of new trading units were in place and a further significant improvement in turnover was expected in the current year.

The company intended to apply to move from the USM to a full listing next month.

Gross profit for the year came to £4.53m (£2.89m) and interest payable was up to £166,000 (£115,000). Earnings were 25.8p (14.1p) after a nil tax charge (£22,000).

The dividend is raised from 2.5p to 4p per 50p share. The directors will be proposing a subdivision of those.

Yesterday, an extraordinary meeting approved the change of the company's title to Midsummer Leisure.

Alice Rawsthorn on the rapid expansion of JS Pathology

The practice that tiptoed into the limelight

ONE OF the more enigmatic companies on the Unlisted Securities Market tiptoed into the limelight recently.

With a market capitalisation of almost £50m and a rapidly rising share price J S Pathology is one of the largest and most successful companies on the junior market—but one of the least visible.

It is also one of the Reading clinical pathology laboratories in Britain and also the only publicly quoted company of its type. Therein lies the reason for its invisibility, for the research analysts of the City are not noted for poring over reports of esoteric companies.

Yet J S Pathology merits attention. It joined the USM a year ago with a solid financial record, and it recently announced a 30 per cent increase in pre-tax profits to £1.5m and details of a major acquisition.

The company has fared well despite the City's indifference, chiefly thanks to its clients who have snapped up shares from the institutions which invested at the time of the placing. Individual investors now account for half the shares in issue.

Its share price doubled, from the placing price of 160p, within a few months of flotation, and has risen steadily ever since, to hover at over 400p.

JS Pathology began life in 1958 in a room in Harley Street, London, as the private practice of Dr Jean Shanks offering a service in clinical pathology to consultants and general practitioners in and around Harley Street. The practice expanded rapidly, becoming a limited company in 1975.

During the 1980s the company has diversified into new areas, into running drugs trials for large pharmaceuticals manufacturers, occupational medicine and providing screening services of private health insurance companies and industrial concerns. The traditional pathology service has also been expanded to service hospitals in the Middle East.

Today the company derives 50 per cent of its turnover from the traditional business of providing a pathology service for consultants and GPs; 10 per cent from running trials for drugs companies; 12 per cent from screening; 10 per cent from occupational medicine 9 per cent from overseas services; and the rest from private hospitals.

In Metpath J S Pathology has acquired another private clinical pathology laboratory. The business was established in 1981 as the British subsidiary of Corning Glass Works. It built up a substantial client list but operated at a loss until last year. J S Pathology has acquired Metpath's trading business, for an initial consideration of £4.6m in shares.

Metpath will augment JS Pathology's customer base, especially overseas, where it is eager to expand into Europe. Initially, European work will be carried out by freighting samples over to the London laboratory.

In the longer term the company may consider setting up a laboratory on the Continent. It will also consider the prospects for expansion into the Far East.

JS Pathology expects every area of activity to grow in the next few years. The traditional pathology service has received an unexpected fillip from the increase in the number of GPs who have recently introduced private practices. The company is considering the introduction of marketing services in the major regional centres to courier samples down to London.

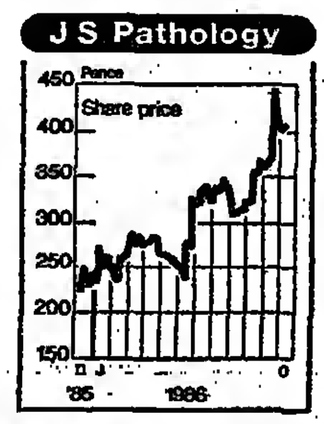
Business with pharmaceutical companies is expanding rapidly. J S aPthology plans to expand its service by adding a computer analysis facility.

Screening has recently received a rather morbid boost from concern about AIDS and cervical cancer. Similarly occupational medicine should benefit from the introduction of new EEC legislation—scheduled for implementation early next year—which will make it compulsory for a far wider range of companies, primarily those with employees working in potentially hazardous areas, to provide regular medical tests for those employees.

The company's stockbroker, Kleinwort Grieveson, has increased its profits forecast to £2.7m for the current financial year—which ends in late March—and expects at least £4m for the following year.

J S Pathology is in the fortunate position in that its only perceptible problem is the scarcity of the shares in public issue.

Dr Shanks hopes that this problem will be alleviated by the placing, which will accompany the Metpath acquisition, and possibly by arrangements accompanying the company's graduation to a full listing next year.



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Assets & Ergs. Tst	106.6	113.3xd	+0.5	2.52
Capital Reserve	43.4	45.8		1.53
Commodity & Energy	95.4	101.4	+0.3	1.12
European Capital	182.7	194.2	−0.6	1.16
General	136.2	144.7	+0.8	2.94
Japan	79.8	84.8	−0.5	0.8
Mastertrust	68.0	72.3	−0.2	2.27
UK Growth Acc Units	149.6	159.1	+0.9	0.99
UK Growth Dist	103.5	110.0	+0.6	1.43
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Index Trust	87.6	93.2	+0.1	1.30
Income Gwth Tst	48.9	52.1	+0.4	3.53
Gilts & Fixed Int	70.0	71.5	+0.2	10.25
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Unicorn Ho. 252 Romford Rd, E7 01-534 5544

Unicorn America	91.0	96.2xd	−0.3	1.46
Do Aust. Acc.	182.6	195.2	−0.2	0.90
Do. Aust. Inc.	128.7	136.1xd	−0.1	0.90
Do. Capital	70.1	74.1	+0.2	3.06
Do Euro Gwth Acc	78.9	83.0	+0.5	1.10
Do. Euro Gwth Inc	78.1	82.4	−0.6	1.18
Do. Exempt Tst	421.0	440.5xd	+1.8	4.31
Do. Extra Income	74.5	78.8	+0.3	5.59
Do. Financial	232.0	245.4xd	+1.0	3.05
Do. 500	266.7	282.2	+0.7	3.20
Do. General	138.1	146.7	+0.5	3.26
Do. Gilt & Fxd. Int. Inc	89.2	91.7xd		10.60
Do. Growth Acc	179.7	190.1	+0.1	2.27
Do. Income Trust	338.4	358.0	+0.9	3.95
Do. Intl Income Trust	53.6	56.7	−0.1	4.32
Do Japan & Gen Tst Acc	173.0	183.0	...	0.00

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ACROSS

1 Country air (8, 6)
10 Managed to find a swimmer occupied by exercise (5)
11 Rival peer arranging for suspension (9)
12 View bearing the remains as humbug (3-4)
13 Marine having to hurry back—early start essential (4-3)
14 Greatly inclined to soak (5)
16 Judge in need of new bar attire (9)
19 Game it's wrong to make money on (9)
20 Poles holding American woman (5)
22 Ring the head about the queen's function (7)
25 Some flowers bend in the middle (7)
27 Working on his reel at the water's edge (9)
28 Understanding directions given by oriental coppers (5)
29 Outmoded calculators (5-9)

DOWN

2 Think to take prisoner (9)
3 "Up from —— glances the silver sail of dawn," Housman (5)
4 Star? No, the replacement—that's the point (5-4)
5 Having cut a pressman, ran! (5)
6 Portions of meat one arranged in minutes (9)
7 A complaint involving workers' homes (5)
8 Distance from main road to field and back for example (7)
9 Credit entry? (6)
15 Gathering impressions (9)
17 Her work is telling (4-5)
18 Non-drinker making seaman colour with little hesitation (9)
19 He doesn't read assiduously, and may be worse in trains (7)
21 Demanded return of Parisian twice in French (6)
23 A girl will accept an alternative place in Portugal (5)
24 Pick a little hotel—it ensures good service (5)
26 Got up as a result of siren malfunction (5)

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Money Fd (A&B) Dec 3	142.5	150.0		
Cap Fd (A&O) Nov 15	400.0			
G&S SuperFd(A&B) Nov 15	166.0			
FarEastEqty(A&B) Dec 3	187.5	197.5		
N Amer Eqty(A&B) Dec 3	108.5	114.5		
IntTechnlgy(A&B) Dec 3	156.5	165.0		—
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Money Fund	144.7	152.6	+0.1	
CCL Henderson	162.3	171.2	+1.0	—
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Managed Acc	312.4	328.8	(z)	—
Money Acc	179.6	189.0	(z)	—
Property Acc	186.5	196.3	(z)	—
Individual Pension Funds(z)				
American	117.3	123.4	+1.7	—
Equity	383.5	409.6	-1.0	—
European	262.4	276.3	-3.2	—
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99-101 London Rd, Sevenoaks 0732 450161

TSB Life Ltd
PO Box 3 Keens Hse, Andover SP10 1PG 0264 62188

Target Life Assurance Co. Ltd.

Teachers' Assurance Company Ltd

Transatlantic Life Assur Co Ltd

Trident Life Assurance Co Ltd

Tunbridge Wells Equitable

Tyndall Assurance/Pensions

UK Life Assurance Co Ltd

UK Provident

Vanbrugh Life Assurance

Vanbrugh Pensions Limited

Wesleyan & General Assurance Soc

Windsor Life Assur Co Ltd

MANAGEMENT SERVICES

David M. Aaron (Personal Fin. Plan.) Ltd

Ashville Insurance Brokers

Chase de Vere Investments Ltd

FPS Management Ltd.

First Financial Services PLC

Investment Portfolio Services Ltd

Johnson Fry Plc
Princes Ho, 36 Jermyn St, LondonSW1Y 6DT 01-439 0926

Knight Williams & Company Ltd
35 Cork Street, London W1X 1HE. 01-409 0271

Lamont & Partners Ltd.
48 Charles St., London, W1X 7PB. 01-629 4509

Management & Executive Ltd
Royal Hse, Sovereign St., Leeds 0532 435200

Marsh Financial Management Ltd
24 Vale Ave, Tunbridge Wells. TN1 1DJ. 0892 515616

Noble Lowndes & Partners Ltd
PO Box 144, Croydon 01-686 2466

The Norminster Group
71, London Rd, Peterborough, PE2 9BB 0733 42200

PBR Fund Management Ltd.
146a Queen Victoria St, EC4V 5AP 01-236 4070

The Porchester Group
91 Wimpole Street, London W1M 7DA 01-495 9090

Shaw (Albert E.) & Co

Towry Law & Co

J. O. Ward & Co Ltd

Yorkshire & Lancashire Investment Mgt.

OFFSHORE AND OVERSEAS

Actibonds Investment Fund SA

Albany Fund Management Limited

Alexanders Rouse (Bermuda) Ltd

Alliance Capital Management Intl. Inc.

Allied Dunbar International Fund Mgrs.

Allied/Irish Fund Managers (CI) Ltd

Asset Global Funds Ltd

BAII Multicurrency (SICAV)

BIA Bond Investments AG

BNP Inv Mgmt (CI) Ltd

Julius Baer Bank & Trust Co Ltd

Bamford Brandt Guernsey Mgt. Ltd

The Bangkok Fund

Bankamerica Tst Co (Jersey) Ltd

Barclays Unicorn International

Baring Fund Managers (Guernsey) Ltd

Baring International Group

Barrington Mgmt (CI)—Barrington Fd

Bishopsgate Commodity Ser. Ltd

Brazil Capital Services Ltd

Bridge Management Ltd

Brown Shipley Fund Mgmt (CI) Ltd

Butterfield Management Co Ltd

CAL Investments (IoM) Ltd

Capital International

Cater Allen Investment Management (CI)

Charterhouse Bank

Charterhouse Fund Mngt. (C.I.) Ltd

Citibank (CI) Ltd "Citifunds"

Cortexa International

Craigmount Fixed Int. Mngrs. (Jersey) Ltd

Credit Suisse

DWS Deutsche Ges. F. Wertpapiersp

Daehan Investment Trust Co Ltd

Dartrust Management (Guernsey) Ltd

Dean Witter World Wide Investment Trust SA

Delta Group

Deutscher Investment-Trust

Drexel Burnham Lambert

Dreyfus Intercontinental Inv. Fd.

Duncan Lawrie Inv. Mgt. Ltd

Dunedin Unit Trust Mgrs (Bermuda) Ltd

Dunn & Hargitt Group

EBC Trust Company (Jersey) Ltd

The English Trust Group

Equitiinkt International Mngt Ltd

Equity & Law International Life Assur Co Ltd

Ermitage Ltd

Ermitage Management Cayman Ltd

Eurolife Assurance Group

Europe Prestige Fund SA

Eurotax Investments Ltd

FFM Futures Fund Ltd

Far East Growth Fund

Fidelity International

First Convertible Securities Fund

Fleming Group

Foreign & Colonial Management Ltd

Forbes Securities Management Ltd

Formosa Fund

Framlington Overseas Fund Mngt. Ltd

Frankfurt Trust Investment-GmbH

Frobisher Fund Limited

GT Management (UK) Ltd

Gartmore Fund Managers Ldn. Agents

Assicurazioni GENERALI SpA

Gertrust SA

Global Asset Management Corps.

John Govett Mngmt (Guernsey) Ltd

Granville Management Limited

Grindlay Vanguard Management Limited

Grofund Invest Managers (Guernsey) Ltd

Guinness Mahon Fund Mgrs (Guernsey) Ltd

Hambros Bank Ltd

Hambro Pacific Fund Mgmt Ltd

Hambros Fd Mgrs (CI) Ltd

Health 2000 Limited

Henderson Admin. (Guernsey)

Henderson Management SA

Hill Samuel Fd. Mngrs. (Guernsey) Ltd

Hill Samuel Investment Mgmt Intl SA

IGF Management Services Ltd

I.C. Trust Managers (Jersey) Ltd

The India Fund

Indosuez Asia Invest Services Ltd

International Bond Trust

International Speciality Fund

NV Interbeheer

Investissements Atlantiques SA

Jamaica Investment Management

Jardine Fleming & Co. Ltd.

Leopold Joseph & Sons (Guernsey)

Kleinwort Benson Group

Kleinwort Benson (Guernsey) Fd Mngrs Ltd

Kleinwort Benson Islamic Fd Mgmt Ltd

Korea Growth Trust

Korea International Trust

Lazard Brothers & Co (Guernsey) Ltd

Lazard Brothers & Co. (Jersey) Ltd.

Lloyds Bank (CI) U/T Mgrs.

Lloyds Bank Geneva Switzerland

Lloyds Intl. Money Market Fund Ltd

London Interstate Fund Managers Ltd

MFM Ltd.

M & G (Cayman) Ltd

M & G Island Fund

Man International Futures

Manufacturers Hanover Geofunds

Manx Intl. Ltd.

Midland Bank Tst. Corp. (Jersey) Ltd

MIM Britannia International Limited

Minerals, Oils Res. Shrs. Fd. Inc.

Multi-Currency Bond Portfolio

Murray, Johnstone (Inv. Adviser)

NEL Britannia Int Ass Ltd

NM Income & Gwth Fd

Nat. Westminster Jersey Fd. Mgrs. Ltd

Newport International Management

The New Zealand Fund

Nikko Intl. Cap. Mngt. Co (Europe) Ltd

Nomura Growth Fund SA

Nomura Prudential Global Portfolio

Northgate Unit Tst. Mngr. (Jersey) Ltd

North Star Group of Companies

Norway Fund Management A/S

PFC International Portfolio Fd Mngt Ltd

Pacific Basin Fund

Pacific Growth Fund

Perpetual UT Mngrs (Jersey) Ltd

Perrimer Bond Fund SA

Phoenix International

Premium Life International Ltd

Prestige Management S.A.

Providence Capital International

Prudential Intl Finance Services Ltd

Putnam International Advisers Ltd

Quantum Fund NV

Quantum Fund

Quilter International Management Ltd

Rothschild Asset Management (CI)

Rothschild Australia Asset Mgmt Ltd

Royal Bank of Canada Funds

Royal Life Intl. Ltd

Royal Trust Fund Mngt (CI) Ltd

Royal Trust International Fd. Mngt. Ltd

Save & Prosper International

Scandinavian Bk Fd Mgrs Ltd

Schroder Mngt Services (Guernsey) Ltd

Schroder Fin. Mngt. Intl. Limited

Schroders Asia Limited

Scimitar Worldwide Selection Fund Limited

Scrimgeour Kemp-Gee Mngmt., Jersey

Seoul International Trust

Singer & Friedlander Ldn. Agents

Standfund

Societe Generale Merchant Bank plc

Standard Bank Fund Managers

Standard Chartered Off. Money Mkt Fund

Strategic Metals Corp plc Metal Funds

Stronghold Intl Mngt Ltd

Stronghold Management Limited

TSB Trust Funds (CI)

Taiwan (ROC) Fund

Target International Management Ltd

Tokyo Pacific Holdings NV

Tokyo Pacific Hldgs. (Seaboard) NV

Top Brand Fund Management Ltd

Transworld Bond Trust

Tyndall Guardian Managers (Jersey) Ltd

Tyndall Guardian Mngt Ltd

Tyndall International Assurance Ltd

M. Tyrrell & Co. Ltd.

US Federal Securities Fund SA

US Index Fund—SICAV

US Pacific Stock Fund

U.S. Treasury Securities Fund Ltd

Union-Investment-Gesellschaft GmbH

United Fund Managers Ltd

Viking Fund—SICAV

Warburg Investment Management Jersey Ltd

Warburg Invest. Mngt. Jersey—Contd.

Warburg Inv Mngt (Isle of Man) Ltd

Wardley Fund Managers (Jersey) Ltd

Wardley Investment Services Ltd

WestAveo Secs. (Guernsey) Ltd

World Bond Fund

World Capital Growth Fund

World Fund S.A.

World Wide Growth Management

Yamaichi Capital Mngt (Guernsey) Ltd

Yamaichi Dynamic Mngt Co SA

Zero Bond Fund Limited

Money Market Trust Funds

Charities Ald Funds Money Market Co Ltd

The Charities Deposit Fund

The Money Market Trust

Oppenheimer Money Management Ltd

Money Market Bank Accounts

Adam & Co. plc

Aitken Hume

Allied Arab Bank Ltd

Bank of Scotland

Barclays Prime Account

Benchmark Trust Ltd

Brown Shipley & Co Ltd

Charterhouse Bank Limited

Citibank Savings

Co-operative Bank Cheque & Save

Darlington & Co Ltd

Henderson/Bank of Scotland

Lloyds Bank PLC

Midland Bank plc

NatWest Special Reserve Account

Oppenheimer Money Mngmt Ltd

Phillips & Drew Trust Ltd

Provincial Trust

Royal Bank of Scotland plc

Save & Prosper/Robert Fleming

Tyndall & Co

J. Henry Schroder Wagg & Co Ltd

Western Trust & Savings Limited

Wimbledon & South West Finance Co Ltd

NOTES

TRADITIONAL OPTIONS

3-month call rates

A selection of Options traded is given on the London Stock Exchange Report Page.

COMMODITIES AND AGRICULTURE

EEC Commission to seek tighter fishing limits

BY TIM DICKSON IN BRUSSELS

THE EUROPEAN Commission was set last night to agree significantly tighter limits on EEC fishing in 1987.

In a move aimed at conserving the Community's threatened stocks the Commissioners are proposing sharp cuts in the total allowable catches (TACs) for certain species. In the case of cod, for example, the reduction will be around 16 per cent for the Community overall, though in North Sea and Norwegian Sea zones the decrease will be even bigger.

The Commission's plans must first be approved at a meeting in Brussels next Wednesday and Thursday of the EEC's Fisheries Ministers. There may be a number of minor changes in the recommendations agreed last night, but the scope for radical revisions to the figures is thought to be limited. The EEC Fish Council last year specifically committed itself to observing closely the advice of scientific experts.

The Commission's proposal TACs have been set with data and guidance from the International Council for the Exploration of the Sea (Ices) and the Scientific and Technical Committee for Fisheries (STCF). They come at a time when there is widespread concern about the excess capacity in Community fleets, the diminishing stocks available for them to catch, and alarming evidence of overfishing in certain waters and Brussels' lack of authority to do much about it.

After a lengthy meeting last week EEC Fisheries Ministers agreed an important new Ecu 800m five year package aimed at improving and adapting EEC fishing fleets to changing market conditions. Agreement next week on TACs and the individual member state quotas which automatically flow from that would represent a second important achievement for the EEC's Common Fisheries Policy.

The proposals likely to be agreed last night would allow (among other things) for a 28 per cent reduction in cod catches in the North Sea and the Norwegian Sea zones, a 34 per cent cut for haddock in the same zones, no change for whiting, and a 16 per cent decrease for European plaice. The major changes affect these so-called "white" fish or the "damarsal" (deep water) species; catches of "pelagic" species such as mackerel and herring will not be so radically altered.

The Commissions thinking makes clear that the quotas in the North Sea for cod, haddock, saithe, plaice and sole are lower than they would otherwise be because of the "poor state of stocks" and the available scientific evidence.

Brussels accepts US maize imports

By Tim Dickson

THE EUROPEAN Commission yesterday appeared to have made a significant conciliatory gesture to the US by accepting import tenders for more than 328,000 tonnes of "third country" maize. The bulk of this is thought to be US grain.

The move comes ahead of Friday's key talks in Brussels between senior members of the Reagan Administration and the Europaan Commission.

There were suggestions late in Brussels last night of a further successful tender involving more quantities of American grain.

The special tender system was set up under the terms of a temporary trade agreement between the Community and tho US in Jly. But the Americans have complained recently that the mechanism — designed to enable the EEC to meet its commitments to import up to 1.4m tonnes of third country maize over six months at a reduced import levy — was not working properly.

The plan was devised to overcome the prohlems caused for US exporters by Spain's entry earlier this year into the EEC.

The amounts accepted at this week's tender—far more than previously — will incur an import levy of just over Ecu 140, compared with a mnch bigher Ecu 152.3 last week.

The latest development hrings total maize imports under the agreement to 465,000 tonnes of which 370,000 is believed to be from the US.

UK tries to break farm deadlock

BY TIM DICKSON IN BRUSSELS

EEC FARM Ministers were bracing themselves for an all night negotiating session in Brussels after a new initiative by the British presidency to break the deadlock over CAP reform.

Late last night the UK's Farm Minister, Mr Michael Jopling, currently chairman of the EEC Farm Council, tabled new proposals which for the first time combined hitherto individual ideas for curbing beef and dairy surpluses.

The new plans involve recognising that milk production within the Community must be reduced by 9.5 per cent over the next two marketing years and that quotas should be reduced by 6 per cent with effect from April 1 1987. These cuts could either be achieved voluntarily or compulsorily with compensation provided at a rate of 6 Ecus per 100 kg.

A significant element of the new British plans is postponing for one year the Commission's plan for tightening up the way the quota system works. This would allow for the moment at least the continuation of transfers of quotas between regions.

The new ideas support the Commission's proposals for significantly reducing the cost of intervention but there would be significant changes to the previously proposed premium payments.

It was clear last night that Mr Jopling was planning to keep his colleagues talking through the night.

World harvest record forecast

By Andrew Gowers

THE INTERNATIONAL Wheat Council yesterday deepened the depression of the world grain market by sharply increasing its estimate of world cereals output in 1986-87 and cutting its forecast for trade.

In its monthly market report, it put total grain production at a record 1.36bn tonnes, up from its previous estimate of 1.35bn. World wheat production is put at 520m tonnes, itself a record.

The council says it made the adjustments principally to reflect official crop figures from the Soviet Union, which said a few weeks ago that its total 1986 grain crop was 210m tonnes This could result in a substantial rednction in import requirements for Moscow, which is still by far the largest buyer on the world grain market.

Blast hits platinum smelter

BY JIM JONES IN JOHANNESBURG AND STEFAN WAGSTYL IN LONDON

RUSTENBURG PLATINUM Mines of South Africa, the world's largest platinum producer, has lost about a quarter of its smelting capacity in an explosion.

Rustenburg shares fell 21p to 710p on the news.

Mr Brian Gilbertson, managing director, said one of five furnaces at the mine exploded on Thursday and would be out of action for two months while it was repaired. Nobody was seriously injured in the blast.

The company had no reason to believe the explosion was anything other than an accident, caused by moist concentrates being fed into the furnace, said Mr Gilbertson.

The smelter, which produces a matte containing platinum group metals (PGM) as well as base metals, is one of two at the company's Rustenburg section.

The company operates five smelters at its three mines—two at Rustenburg Section, two at Union Section and one at Atok. Total smelter capacity is greater than needed by the company's mines.

But the explosion will nevertheless cut matte production by about 15 per cent, according to analysts in South Africa. Matte is a metals-rich concentrate which is refined to produce pure metals at refineries owned by Johnson Matthey and Rustenburg in South Africa and Britain.

Mr Gilbertson said the company could increase output from the other furnaces by treating higher-grade material. Rustenburg's sales would not be affected.

According to unofficial reports from company employees, Rustenburg also hopes to minimise its production loss by making use of smelting capacity owned by Impala Platinum, South Africa's second largest platinum producer. Impala and Rustenburg have a long-standing marketing agreement under which Rustenburg sells 60,000 ozs of platinum a year to Impala.

Rustenburg and Johnson Matthey, the UK company which markets the mine's metal, are at present in dispute with unions at their refineries at Wadeville in South Africa and at Royston in Hertfordshire over plans to close the refineries and establish new refining operations near Rustenburg's mines in Bophuthatswana, one of South Africa's black homelands. Yesterday the South African police were hunting Mrs Chris Bonner, a leader of the Chemical Workers' Industrial Union, which represents employees at the Wadeville refinery. Mrs Bonner and her husband are being deported from South Africa to England.

SELLING AGENTS are estimated to have been left holding 10 per cent of the 10m gold coins being issued by the Japanese Government from today to mark the 60th anniversary of Emperor Hirohito's reign, reports Reuter from Tokyo. The unsold coins will be bought up by the Bank of Japan.

Customers are thought to have been put off by the high premium on the coins, which contain gold worth about Y45,000 but are priced at Y100,000 (£430).

Confidence that the issue would be a sell out was encouraged after thousands of small investors lined up in October for free lottery tickets offering the chance to buy the coins.

EEC on course for rapeseed record

BY JOHN BUCKLEY

RAPESEED CROPS sown this autumn are in excellent condition throughout the EEC, pointing to 1987 output at a new record of 4.4m tonnes, up from 3.5m tonnes this year, according to industry estimates.

Mr Bob Peacock of Bunge and Co, the oilseed crushers, told a seminar held by Kenneth Wilson Agriculture this week, that the UK alone could produce between 1.1m and 1.2m tonnes next year, compared with 900,000 in 1986 while the French and West German crops were likely to reach 1.2m tonnes each.

This would almost certainly trigger a co-responsibility scheme, leading to cuts in support price of between 5 per cent and 10 per cent. But while this might reduce the return to farmers by some £20 to £30 per tonne, higher yields would probably compensate. In addition lower seed prices would also require a smaller subsidy on crushing needed to keep rapeseed competitive against foreign seed supplies.

Good oil yields could also help producer returns. This year's crop had yielded an unusually high 42.44 per cent oil which had added up to £12 per tonne to the value of seed to the farmer.

The weakening of sterling had provided an unexpected boost to UK rapeseed exports, Mr Peacock noted. Shipments of UK seed to northern Europe, mainly West Germany, would reach a new record of 450,000 tonnes or half the crop this season. However, despite plentiful supplies as a result and about 250,000 tonnes of rapeseed would have to be imported to avoid shortages. Even then crush was unlikely to exceed 650,000 tonnes—about 100,000 tonnes less than expected earlier.

In the Community as a whole, 1987 would be the first year of real surplus of rapeseed but with support from users, the crush could rise to accommodate the crop, Mr Peacock said. He noted that the Commission had provided an average of about £175 per tonne in crush subsidy this season despite the inflated cost on the oilseed budget of increased sunflower crops in southern Europe. But crush returns had been slashed by the decline in rapeseed oil value in response to the world glut of palm oil, which had forced the latter to penetrate markets around the world, including Europe. Although the UK had probably lost only a small share to palm in blends and food processing outlets, the competition from palm had driven down rapeseed prices two months ago to only £150 per tonne. Since then the market had climbed back to around £230 compared with £700 during the last palm oil shortage two years ago, he said.

WEEKLY METALS

All prices as supplied by Metal Bulletin (last week's prices in brackets).

ANTIMONY: European free market, 99.6 per cent, $ per tonne, in warehouse, 2,360-2,430 (2,370-2,470).

BISMUTH: European free market, min 99.99 per cent, $ per lb, tonne lots in warehouse, 2.15-2.25 (2.05-2.20).

CADMIUM: European free market, min 99.95 per cent, $ per lb, in warehouse, ingots, 0.87-0.92 (0.86-0.92), sticks, 0.87-0.92 (0.86-0.92).

COBALT: European free market, 99.5 per cent, $ per lb, in warehouse, 6.15-6.45 (6.10-6.45).

MERCURY: European free market, min 99.99 per cent, $ per flask, in warehouse, 160-175 (same).

MOLYBDENUM: European free market, drummed molybdic oxide, $ per lb Mo, in warehouse, 3.05-3.10 (same).

SELENIUM: European free market, min 99.5 per cent, $ per lb, in warehouse, 4.90-5.20 (same).

TUNGSTEN ORE: European free market, standard min 65 per cent, $ per tonna unit WO_3, cif, 31-45 (30-45).

VANADIUM: European Free market, min 98 per cent V_2O_5, other sources, $ per lb V_2O_5 cif, 2.48-2.53 (same).

URANIUM: Nuexco exchange value, $ per lb U_3O_8, 17.00 (same).

Peanut prices plunge amid panic selling

BY ANDREW GOWERS

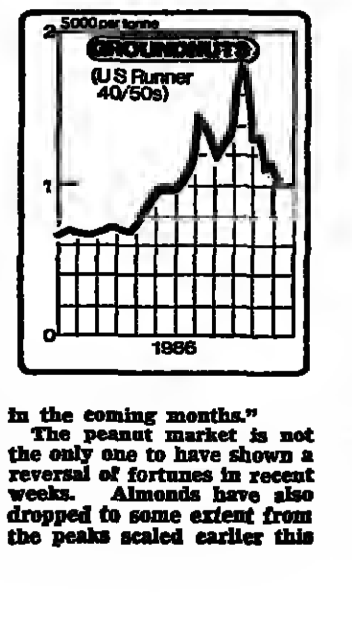
THE UPWARD spiral in the peanut market has turned into a dramatic collapse as fears of a shortage of quality US nuts have receded.

In the past two months, prices of US runner groundnuts—the preferred roasting and salting variety on the world market—have dropped by more than 40 per cent. Last week, they were quoted at $1,025 per tonne in London, compared with $1,790 at their peak in the second week of October.

The sharp movement appears to have been sparked by evidence that the crop in the south-eastern US—which many traders had been led to believe would be drastically reduced by drought—would be a good deal larger than expected. It seems that the US Department of Agriculture underestimated the acreage planted to groundnuts this year. Some analysts also cite increased sales by China and Argentina as contributing to the change in sentiment.

Traders in Rotterdam holding long positions are reported to have sold out in panic. "Like a snowball, it just started rolling," said one. Stocks in the Dutch port are understood to be at record levels of between 90,000 and 120,000 tonnes, about double what they are normally, and heavily inventories are also weighing on the British market.

However, prices remain well above their usual levels of around $700, and traders are cautious about predicting the market's next move. "The market may have overreacted. We think it's going up again," said one. "Purchasing industries are continuing their hand-to-mouth buying and will have to cover a lot in the coming months."



The peanut market is not the only one to have shown a reversal of fortunes in recent weeks. Almonds have also dropped to some extent from the peaks scaled earlier this year in response to expectations of a shortfall in Californian supplies, which account for about 60 per cent of production in a normal year.

Last week, Californian nonpareil almonds were quoted at $570 per 220 lbs, compared with $660 at the beginning of October but still nearly double the level quoted in January. One of the reasons for the downturn appears to be a slackening of Soviet demand for Californian nuts—possibly in response to Moscow's foreign exchange problems. Mr Steve Easter of the California Almond Growers' Exchange, the biggest growers' co-operative, said in London yesterday that the Soviets normally bought 30m lb a year from his organisation, but they had bought nothing since last July.

LONDON MARKETS

SUGAR WAS the biggest mover among London's soft commodity futures markets *yesterday. Whilc coffee and* cocoa edged lower nearby sugar values fell heavily in lata trading, reflecting the tonc in the New York Market. Dealers said New York's weakness was triggered by the bearish report from the Economist Intelligence Unit which put the 1986-87 world crop at 100.6m tonnes, up from 97.7m tonnes for 1985-86. On the *London Metal Exchange* meanwhile talk of an imminent settlement of the month-old strike at Noranda's Horne operation influenced the tone. And with falls breaching the 60 cents a lb support level for March delivery stop-loss selling was triggered. By the close cash Grade A copper was trading at £931.50 a tonne, down £10.50 on the day, and the three months position was £8.50 down at £951.25 a tonne. Cash lead recovered £3 of Monday's £11 fall at £357 a tonne while cash zinc's £6 fall to £541.50 a tonne wiped out *Monday's advance.*

LME prices supplied by Amalgamated Metal Trading.

ALUMINIUM

Official closing (am): Cash 797-7.5 (798.5-9), three months 806.5-7.5 (870.5-8), settlement 797.5 (799). Final Kerb close: 806-8. Turnover: 25,625 tonnes.

	Unofficial close (p.m.) £ per tonne	+ or —	High/Low
Cash	79605-7.5	—4	797
5 months	806.5-7.5	—3.75	810/807

COPPER

Grade A	Unoffic'l close	+ or —	High/Low
Cash	961-2	—10.5	958/937.6
6 months	951-1.6	—8.6	957/950

Official closing (am): Cash 937-8 (943-3.5), three months 955.5-6 (960-60.5), settlement 938 (943.5). Final Karb close: 950.5-1.

Standard			
Cash	902-4	—5	907
6 months	999-60	—6.5	—

Official closing (am): Cash 905-6 (909-9.5), three months 934-5 (938.5-9.5), settlement 906 (909.5). US Producer prices: 63.50-66.50 cents per lb. Total turnover: 34,375 tonnes.

LEAD

	Unofficial close (p.m.) £ per tonne	+ or —	High/Low
Cash	356-8	+5.5	360/359
5 months	353.5-4	—0.75	325.5/323

Official closing (am): Cash 360-1 (356-7), three months 325-5.5 (323-4), settlement 361 (357). Final Kerb close: 325.5-6. Turnover: 12,675 tonnes. US Spot: 24-29 cents per lb.

NICKEL

	Unofficial close (p.m.) £ per tonne	+ or —	High/Low
Cash	2534-40	—5.5	2540/2536
6 months	2592-5	+1	2590/2588

Official closing (am): Cash 2,535-40 (2,540-5), three months 2,588-92 (2,588-90), settlement 2,540 (2,545). Final Kerb close: 2,590-5. Turnover: 630 tonnes.

TIN

Kuala Lumpur Tin Market: Close 18.99 (16.90) ringgit per kg. Up 0.09 ringgit per kg.

ZINC

High grade	Unofficial close (p.m.) £ per tonne	+ or —	High/Low
Cash	541-2	—6	543
6 months	535.5-6	—9.75	545/535

Official closing (am): Cash 541-2 (544-4.5), three months 535-6 (544-4.5), settlement 542 (544.5). Final Kerb close: 538-9. Turnover: 13,175 tonnes. US Prime Western: 44-47.75 cents per lb.

GOLD

Gold fell $2¾ an ounce from Monday's close in the London bullion market yesterday to finish at $386¾-387¼. The metal opened at $389¼-389¾ and traded between a high of $389½-390 and a low of [illegible]. Trading was quiet and featureless with light selling developing in the afternoon as US centres entered the market.

GOLD BULLION (fine ounce) Dec. 9	
Close	$386¾-387¼ [illegible]
Opening	$389¼-389¾ [illegible]
M'n'g fix	[illegible]
Aft'n'n fix	[illegible]

GOLD AND PLATINUM COINS		
Am Eagle	[illegible]	[illegible]
Maple leaf	[illegible]	[illegible]
Kr'g'rnd	[illegible]	[illegible]
½ Krug	[illegible]	[illegible]
¼ Krug	[illegible]	[illegible]
1/10 Krug	[illegible]	[illegible]
Angel	[illegible]	[illegible]
1/10 Angel	[illegible]	[illegible]
New Sov	[illegible]	[illegible]
½ New Sov	[illegible]	[illegible]
Old Sov	[illegible]	[illegible]
$20 Eagle	[illegible]	[illegible]
Noble Plat	[illegible]	[illegible]

SILVER

Silver was fixed 2.2p an ounce lower for spot delivery in the London bullion market yesterday at 378.75p. US cent equivalents of the fixing levels were: spot 535.1c, down 2.15c; three-month 542.5c, down 2.2c; six-month 550.2c, down 2.8c; and 12-month 566.8c, down 2.1c. The metal opened at 376-377p (535½-537¼c) and closed at 375-377p (532-535c).

SILVER per troy oz	Bullion Fixing Price	+ or —	L.M.E. p.m. Unofficial	+ or —
Spot	[illegible]	[illegible]	[illegible]	[illegible]
3 months	[illegible]	[illegible]	[illegible]	[illegible]
6 months	[illegible]	[illegible]		
12 months	[illegible]	[illegible]		

LME—Turnover 18 (7) lots of 10,000 ozs. Three months final kerb 384.5-6.5p.

SOYABEAN MEAL

	Yesterday's close	+ or —	Business done
	£ per tonne		
Dec	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]
April	[illegible]	[illegible]	[illegible]
June	[illegible]	[illegible]	[illegible]
August	[illegible]	[illegible]	[illegible]
October	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]

Sales: 0 (100) lots of 20 tonnes.

INDICES

REUTERS

Dec. 8	Dec. 5	M'th ago	Year ago
1638.1	1637.5	1616.4	1761.1

(Base: September 19 1931=100)

DOW JONES

Dow Jones	Dec. 8	Dec. 8	M'th ago	Year ago
Spot	117.71	118.41	—	121.54
Fut	117.68	118.63	—	124.51

(Base: December 31 1931=100)

MAIN PRICE CHANGES

In tonnes unless otherwise stated.

	Dec. 8 1986	+ or —	Month ago
METALS			
Aluminium			
Free Market	$1225/225	+16	$1225/245
Copper			
Cash Grade A	£951.6	—10.5	£909.5
6 mths	£951.25	—8.5	£925.6
Gold Troy oz	$387.00	—2.25	$405.5
Lead Cash	£357	+6.5	£351.00
6 mths	£393.75	—0.75	£315.26
Nickel			
Free Mkt	164/164c	—1	164/164c
Palladium oz	$117.00	—1.25	$128.65
Platinum oz	$475.00	—7.5	$549.00
Quicksilver†	$160/170	......	$169/175
Silver troy oz	375.75p	—2.20	398.60p
6 mths	385.65p	—2.50	409.25p
Tin			
free Mkt	£4510/540	+10	£4220/250
Tungsten	$47.64	......	$46.98
Wolfram 22.0lb	$39/42	......	$32/42
Zinc	£541.5	—6	£589.5
6 mths	£535.75	—9.75	£565.5
producers	$878	......	$920
OILS			
Coconut (Phil)	$425x	......	$442.5
Palm Malayan	$510w	......	$350
Copra (Phil)	$265	......	$270
Soyabean (U.S.)	$160	......	$155
GRAINS			
Barley Fut. Mar.	£116.90	+0.20	£111.85
Maize	£146.00	......	£143.00
Wheat Fut. Mar.	£113.20	—0.25	£110.65
No. 5 Hard Wint.	‡	......	‡
OTHERS			
Cocoa Ft. Mar.	£1432.5	—7	£1493.5
Coffee Ft. Mar.	£1839.6	—8.6	£2203.0
Cotton A Ind.*	58.25c	+0.6	56.10c
Gas Oil Jan.	$123.00	—1.75	$134.96
Rubber (kilo)	63.5p	—0.5	64.6p
Sugar (raw)	$158z	—1	$162
Wooltops 64s	425p kilo	......	421p kilo

In tonnes unless otherwise stated. ‡ Unquoted. † Per 75 lb flask. c Cents a pound. * Cotton outlook. x Jan-Feb. z Dec-Jan. u Jan. w Feb.

COFFEE

A routine trading session saw prices rise slightly in the morning, but pressure on the New York market put the London market back on the defensive, reports Drexel Burnham Lambert. Persistent US-based selling of the January position contributed to the minor weakness but volume was fairly light.

COFFEE	Yesterday's close	+ or —	Business Done
Jan	1957-60	—20.0	2010-1970
Mar	1838-40	—8.3	1866-1835
May	1836-40	—10.0	1866-1836
July	1855-60	—10.0	1880-1855
Sept	1875-86	—7.6	1900-1885
Nov	1885-90	+12.6	—
Jan	1886-90	+2.5	—

Sales: 3,638 (4,242) lots of 5 tonnes.

ICO indicator prices (US cents per pound) for December 8: Comp. daily 1979 134.03 (136.83); 15-day average 139.46 (140.59).

COCOA

After quite an active day with good volume of *trade closing levels were* slightly lower. Producers were light sellers of physicals but consumers generally were unwilling to participate at present levels even though these are the recent lows, reports Gill and Duffus.

COCOA	Yesterday's close	+ or —	Business Done
	£ per tonne		
Dec	1387-1390	—7.5	1392-1380
March	1432-1433	—7.0	1458-1424
May	1460-1461	—8.0	1464-1448
July	1483-1484	—8.5	1485-1474
Sept	1505-1506	—5.0	1506-1497
Dec	1534-1535	—7.0	1534-1526
March	1560-1561	—8.0	1565-1550

Sales: 3,062 (1,396) lots of 10 tonnes.

ICCO indicator prices. Daily price for December 9: 88.43 (88.66); Ove-day average for December 10: 89.19 (89.34) US cents per pound. Daily price 1622.13 (1627.50); 10-day average 1633.72 (1637.12) SDRs per tonne.

POTATOES

The market was again quiet with the Dutch market tending to set the tone. Futures opened £1.00 higher in response to a firmer Dutch quote but this interest quickly fizzled out and values drifted back to unchanged by mid-morning. Speculation that the PMS might release revised October stock, consumption and yield figures also brought in selling. Rumours proved foundless with the board remaining silent and during the afternoon speculative short-covering and some buying dictated by a guilder drop in Holland over lunch helped prices recover and close steady, reports Coley and Harper.

Month	Yesterday's close	Previous close	Business done
	£ per tonne		
Feb	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]

Sales: 663 (506) lots of 40 tonnes.

GRAINS

Old crop wheat again saw a large January/March switch turnover, with values reaching highs in early trading [illegible] house selling. Old crop barley saw a similar trade with late commission house selling easing values, reports T. G. Roddick.

WHEAT Mnth	Yesterday's close	+ or —	BARLEY Yest'rdy's close	+ or —
Jan	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]	[illegible]
Sept	[illegible]	[illegible]	[illegible]	[illegible]
Nov	[illegible]	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]	[illegible]

Business done—Wheat: Jan 110.50-110.00, Mar [illegible], May [illegible], July untraded, Sept [illegible], Nov [illegible], Jan [illegible]. Sales: 516 lots of 100 tonnes. Barley: Jan [illegible], Mar [illegible], May [illegible], Sept untraded, Nov [illegible], Jan untraded. Sales: [illegible] lots of 100 tonnes.

LONDON GRAINS—[illegible]

HGCA—Locational ex-farm spot prices. Feed barley: S East [illegible], S West [illegible], W Mids [illegible], N West [illegible]. The UK monetary coefficient for the week beginning Monday December 15 (based on HGCA calculations using 6 days' exchange rates) is expected to remain unchanged.

US MARKETS

MOUNTING EXPECTATIONS that the International Coffee Organisation will not intervene supportively, along with slnggish demand, kept the coffee market on its downward course despite technical support on the contract lows, reports Teinold. Prices in active March lost ground in a text-book example of a bearish trading channel from 141c down to the *close at 138c.* Locals were steady sellers, hitting commission house sell stops between $138.80 and $137.50 in March. The trade remains a slight scale-down *buyer* but not a large enongh participant to hold the market up at current levels. Platinum, gold and silver closed lower. A lack of interest in both gold and silver rather than the influence of a stronger US dollar against foreign currencies was weighing on prices.

NEW YORK

ALUMINIUM 40,000 lb, cents/lb

	Close	High	Low	Prev
Dec	49.75	49.00	49.70	49.75
Jan	00.05	—	—	80.10
Feb	50.30	—	—	50.35
March	50.50	50.55	50.40	60.55
May	50.75	80.75	50.65	50.75
July	61.00	51.00	61.00	61.00
Sept	61.30	—	—	51.20
Oct	61.35	—	—	61.30
Jan	51.65	—	—	51.80
March	51.65	—	—	61.50

COCOA 10 tonnes, $/tonne

	Close	High	Low	Prev
Dec	1808	1808	1790	1807
March	1844	1849	1837	1850
May	1880	1882	1872	1881
July	1904	1906	1899	1906
Sept	1928	1926	1918	1928
Dec	1946	1946	1936	1950
March	1971	1968	1967	1975

COFFEE "C" 37,500 lb, cents/lb

	Close	High	Low	Prev
Dec	135.25	139.25	135.25	138.75
March	137.97	141.75	137.75	140.48
May	138.25	141.75	138.25	141.75
July	140.80	142.50	139.50	142.24
Sept	140.18	142.75	140.75	143.26
Dec	141.00	144.00	144.00	144.00
May	144.60	—	—	146.16

COPPER 25,000 lbs, cents/lb

	Close	High	Low	Prev
Dec	59.65	59.95	59.45	59.90
Jan	59.60	—	—	59.85
Feb	59.85	—	—	60.10
March	60.10	60.45	59.85	60.35
May	60.70	61.05	60.80	60.95
July	61.05	61.30	60.90	61.30
Sept	61.30	61.30	61.30	61.56
Dec	61.60	62.20	61.60	62.00
Jan	62.00	—	—	62.20
March	62.35	—	—	62.55

COTTON 50,000 lb, cents/lb

	Close	High	Low	Prev
March	55.87	56.10	55.20	55.40
May	56.28	56.30	56.86	55.65
July	56.56	56.60	56.90	55.85
Oct	56.90	56.96	56.66	65.40
Dec	57.10	57.20	56.00	65.60
March	57.36	57.00	57.00	56.80
May	57.56	—	—	57.10

CRUDE OIL (LIGHT) 42,000 US gallons, $/barrels

	Latest	High	Low	Prev
Jan	14.96	15.03	14.88	15.03
Feb	15.08	15.14	14.98	15.13
March	15.08	15.13	15.00	15.15
April	15.10	15.14	15.03	15.14
May	15.07	15.14	15.03	15.14
June	15.09	15.12	15.05	15.14
July	15.05	15.16	15.05	15.14
August	15.15	—	—	15.14
Sept	16.00	—	—	15.14

GOLD 100 troy oz, $/troy oz

	Close	High	Low	Prev
Dec	387.0	389.1	385.5	390.3
Jan	388.9	—	—	392.2
Feb	390.4	392.9	389.0	393.7
April	393.7	396.2	391.5	397.1
June	396.9	399.7	395.0	400.4
August	400.1	400.0	398.0	403.7
Oct	403.2	402.8	402.8	406.9
Dec	406.5	410.0	406.0	410.4
Feb	410.2	—	—	414.1
June	417.8	418.5	419.0	421.9
Oct	403.2	402.8	402.8	406.9

ORANGE JUICE 15,000 lbs, cents/lb

	Close	High	Low	Prev
Jan	128.15	126.85	128.00	127.00
March	127.75	128.46	127.30	128.25
May	128.35	128.76	127.80	128.60
July	128.85	129.25	128.80	128.70
Sept	129.50	129.50	129.20	129.10
Jan	130.00	—	—	129.30

SPOT PRICES—Chicago loose lard 13.90 (same) cents per pound. Handy and Harman silver bullion 534.0 (532.5) cents per troy ounce.

HEATING OIL 42,000 US gallons, cents/US gallons

	Latest	High	Low	Prev
Jan	43.00	43.35	42.85	43.54
Feb	43.55	43.85	43.35	44.08
March	41.95	42.45	41.95	42.63
April	40.80	41.00	40.75	41.30
May	39.60	40.20	39.00	40.10
June	39.70	39.70	39.10	39.55
July	39.90	—	39.90	39.70
Aug	40.00	—	—	40.40
Sept	40.30	—	—	41.20

PLATINUM 50 troy oz, $/troy oz

	Close	High	Low	Prev
Dec	474.0	479.5	473.5	478.5
Jan	476.1	481.0	469.0	479.0
April	479.7	484.5	474.0	483.4
July	483.1	481.0	477.0	486.9
Jan	491.1	—	—	495.4

SILVER 5,000 troy oz, cents/troy oz

	Close	High	Low	Prev
Dec	532.4	537.5	531.6	537.8
Jan	534.7	534.5	534.5	540.2
Feb	537.3	538.0	538.0	542.5
March	540.0	545.0	539.0	545.5
May	546.3	550.0	544.5	550.6
July	550.9	565.5	560.0	556.2
Sept	556.4	—	—	561.9
Dec	564.8	570.0	564.0	570.3
Jan	567.8	—	—	573.3
March	573.5	—	—	579.1

SUGAR WORLD "11" 112,000 lbs, cents/lb

	Close	High	Low	Prev
Jan	5.88	6.00	0.00	0.30
March	6.51	6.90	0.50	5.96
July	6.87	7.11	6.85	7.18
Sept	6.92	—	—	7.23
Oct	7.04	7.33	7.04	7.38
Jan	7.14	—	—	7.46

CHICAGO

LIVE CATTLE 40,000 lb, cents/lb

	Close	High	Low	Prev
Dec	60.47	60.62	60.05	60.45
Feb	57.05	57.10	56.40	56.60
April	57.22	57.25	56.65	56.72
June	56.55	56.56	56.10	56.17
August	55.60	55.65	55.30	55.52

LIVE HOGS 30,000 lb, cents/lb

	Close	High	Low	Prev
Dec	55.47	55.90	55.00	56.07
Feb	51.87	52.00	51.27	52.60
April	46.50	46.55	45.70	46.22
June	48.27	48.35	47.75	48.12
July	47.72	47.86	47.20	47.65
August	44.85	44.90	44.30	44.62
Oct	41.52	41.67	41.40	41.90
Dec	42.20	42.20	42.00	42.25

MAIZE 5,000 bu min, cents/56 lb bushel

	Close	High	Low	Prev
Dec	162.0	163.0	161.6	163.0
March	170.2	172.0	170.0	172.0
May	176.4	178.2	179.4	178.2
July	179.2	181.0	179.0	180.4
Sept	180.0	182.2	180.0	182.2
Dec	183.5	186.0	183.6	186.4
March	191.2	193.2	191.0	193.6

PORK BELLIES 38,000 lbs, cents/lb

	Close	High	Low	Prev
Feb	72.20	72.30	70.20	71.46
March	70.30	70.40	68.75	69.92
May	70.02	70.15	68.45	69.30
July	68.45	68.50	67.15	67.40
Aug	66.07	66.10	64.50	65.46

SOYABEANS 5,000 bu min, cents/60 lb bushel

	Close	High	Low	Prev
Jan	491.8	495.9	491.4	495.0
March	496.2	499.0	495.6	499.5
May	500.2	502.4	500.0	503.4
July	502.9	505.0	502.2	505.2
Aug	501.4	503.4	501.4	504.0
Sept	495.0	497.0	495.0	496.0
Nov	496.4	497.4	495.0	497.2
Jan	503.9	504.0	503.4	506.0

SOYABEAN MEAL 100 tons, $/ton

	Close	High	Low	Prev
Dec	145.5	146.5	145.5	146.3
Jan	146.5	146.2	146.6	146.2
March	145.7	146.3	145.8	146.1
May	146.2	146.5	146.0	146.3
July	146.8	147.0	146.6	147.0
Aug	147.0	147.0	146.8	147.2
Sept	147.2	147.2	147.0	147.2
Oct	147.3	147.5	147.3	147.3
Dec	148.5	148.5	148.5	148.5

SOYABEAN OIL 60,000 lbs, cents/lb

	Close	High	Low	Prev
Dec	14.87	14.95	14.81	15.01
Jan	14.96	15.06	14.92	15.14
March	15.27	15.38	15.25	15.45
May	15.57	15.67	15.56	15.73
July	15.77	15.85	15.76	16.00
Aug	15.80	15.86	15.75	15.95
Sept	15.76	15.86	15.76	15.90
Oct	15.75	15.78	15.76	15.85
Dec	15.75	15.90	15.75	15.86
Jan	15.72	15.72	15.73	15.86

WHEAT 5,000 bu min, cents/60 lb bushel

	Close	High	Low	Prev
Dec	279.0	285.0	279.0	284.9
March	277.6	282.6	277.4	282.6
May	265.4	267.0	264.4	267.6
July	248.6	248.0	246.0	248.4
Sept	248.2	249.2	248.2	249.4
Dec	253.4	—	—	254.4

OIL

Crude trading was thin and seemed to have been confined to forward 9mnt. Prices weakened in the morning but recovered most of the loss when Nymex moved up from the support level of $14.90. January WTI opened 15c down on Nymex and traded 7c down by 1.30 pm EST. In the petroleum products market gas oil and naphtha was weak in thin trade. Fuel oil was stable—Petroleum Argus, London.

CRUDE OIL—FOB ($ per barrel)—Jan.	Latest	Change + or —
Arab Light	—	—
Arab Heavy	—	—
Dubai	[illegible]	[illegible]
Brent Blend	[illegible]	[illegible]
W.T.I. (1pm est)	[illegible]	[illegible]
Forcados (Nigeria)	—	—
Urals (cif NWE)	—	—

Petroleum Argus estimates

PRODUCTS—North West Europe Prompt delivery cif ($ per tonne)		
Premium gasoline	140-144	—
Gas Oil	115-119	—1.5
Heavy fuel oil	[illegible]	[illegible]
Naphtha	[illegible]	—

GAS OIL FUTURES

Month	Yest'rdy's close	+ or —	Business Done
	US $ per tonne		
Dec	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]
Apr	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]
June	[illegible]	[illegible]	[illegible]

Turnover: 5,272 (3,069) lots of 100 tonnes.

HEAVY FUEL OIL

Month	Yest'rdy's close	+ or —	Business Done
	US $ per tonne		
Dec	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]
Feb	[illegible]	[illegible]	[illegible]

Turnover 40 (20) lots of 100 tonnes.

SUGAR

LONDON DAILY PRICE—Raw sugar $158.00 (£111.00), down £1.00 (down $1.00) a tonne for December-January delivery. White sugar $182.00, unchanged.

No. 6 Contract	Yest'rdy close	Previous close	Business done
	$ per tonne		
Mar	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]
Aug	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]
May	[illegible]	[illegible]	[illegible]

Sales: 4,032 (1,783) lots of 50 tonnes.

Tate and Lyle delivery price for granulated basis sugar was £214.50 (£216.50) a tonne for export.

International Sugar Agreement—(US cents per pound fob and stowed Caribbean ports). Prices for December 9: Daily price 6.19 (6.16); 15-day average [illegible].

PARIS—(FFr per tonne): Mar 1227/[illegible], May [illegible], Aug [illegible], Oct [illegible], Dec [illegible], Mar 1415/1420.

MEAT

MEAT COMMISSION—Average fatstock prices at representative markets. GB—Cattle 97.16p per kg lw (+3.90). GB—Sheep 216.72p per kg est dcw (+20.33). GB—Pigs 75.25p per kg lw (+1.55).

FREIGHT FUTURES

	Close	High/Low	Prev.
Dry Cargo			
Jan	[illegible]	[illegible]	[illegible]
April	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]
Jan	[illegible]	[illegible]	[illegible]
April	[illegible]	[illegible]	[illegible]
July	[illegible]	[illegible]	[illegible]
Oct	[illegible]	[illegible]	[illegible]
BFI	[illegible]		730

Turnover 96 (51).

	Close	High/Low	Prev.
Tankers			
Dec			[illegible]
BFI	950		[illegible]

Turnover 0 (0).

RUBBER

PHYSICALS — The London market opened quiet and attracted little interest throughout the day, reports Lewis and Peat. Closing prices (buyers): Spot 63.50p (64.00p); Jan [illegible]; Feb [illegible]. The Kuala Lumpur fob prices (Malaysian cents a kilo): RSS No. 1 [illegible] and SMR 20 [illegible].

FUTURES—Index close: Jan [illegible], Jan-March [illegible], April-June [illegible], July-Sept [illegible]. Sales: Nil.

JUTE

JUTE—Dec/Jan c and f Dundee BTC $360, BWC $350, BTD $360, BWD $330; c and f Antwerp BTC $370, BWC $330, BWD $340, BTD $340.

Swansea-Cork ferry link to start again

A PASSENGER ferry service between Swansea and Cork is to be re-established next April by a company formed by West Glamorgan County Council and three local authorities in Ireland.

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Dollar stays in narrow range

THE DOLLAR remained within its recent narrow trading range yesterday, failing to consolidate after a brief rally took it above DM 2.02. Trading was extremely quiet and featureless. Traders were looking forward to US retail sales and industrial production due for release later this week but suggested that at this time of year economic figures were likely to influence dollar sentiment and not necessarily dollar values.

Once again light corporate demand for the dollar ahead of the year-end provided the upward impetus and the US unit touched a high of DM 2.0225 against the D-Mark before easing back to close at DM 2.0190 up from DM 2.0095 on Monday. Against the yen it finished at Y162.60 from Y162.35 and FFr 6.6175 compared with FFr 6.5825. Against the Swiss franc it rose to SFr 1.6900 from SFr 1.6785. On Bank of England figures, the dollar's exchange rate index rose from 111.0 to 111.2.

STERLING—Trading range against the dollar in 1986 is 1.5585 to 1.3780. November average 1.4250. Exchange rate index 68.3 after opening at 68.1 and compared with Monday's close of 68.6. The six months ago figure was 75.4.

Sterling finished the day on a firmer note in generally quiet trading. The dollar's strength helped sterling to improve against its major European partners, as did the latest opinion poll which suggested that the Conservative Party had stretched its lead over the Labour Party. The pound rose against the dollar to $1.4230 from $1.4200 and DM 2.8725 compared with DM 2.8550. Elsewhere it rose to Y231.25 from Y230.50 and SFr 2.4050 from SFr 2.3850. Against the French franc it closed at FFr 9.4150 up from FFr 9.3500.

The French franc was much steadier after Monday's decision by the French Government to withdraw its controversial education reforms. A rise in the seven day intervention rate also had a stabilising influence although some dealers were concerned about a small but persistent rise in West German interest rates. The D-Mark was fixed at FFr 3.2796 in Paris down from FFr 3.2851 on Monday but finished marginally higher in London at FFr 3.2776 from FFr 3.2757.

D-MARK—Trading range against the dollar in 1986 is 2.4710 to 1.9860. November average 2.0227. Exchange rate index 142.6 against 135.0 six months ago.

Trading was quiet in Frankfurt with currencies confined to a narrow range. There were no new factors to influence the market and the dollar was fixed at DM 2.01 virtually unchanged from DM 2.0099 on Monday. There was no intervention by the Bundesbank.

The French franc managed to make a small recovery at the fixing, rising to DM 30.495 per FFr 100 from DM 30.45 previously. Conditions were a lot calmer after yesterday's retreat by the French Government. The dollar closed at DM 2.0193 compared with DM 2.0110 on Monday.

JAPANESE YEN—Trading range against the dollar in 1986 is 202.70 to 152.35. November average 162.77. Exchange rate index 205.6 against 205.3 six months ago.

The yen showed little change in Tokyo in subdued trading. Once again the dollar was underpinned by corporate demand ahead of the year end and this appeared to overcome any desire to run short on dollars because of the Iranian arms scandal. Activity was confined to a narrow range and the dollar closed at Y162.40 from Y162.30 in New York and Y162.35 in Tokyo on Monday. A small decline in Japan's trade surplus in November to $7.35bn from $7.81bn had no effect on currencies. Elsewhere the D-Mark eased back to Y80.84 from Y81.05.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu December 9	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	43.1139	43.2935	+0.42	+1.09	±1.5368
Danish Krone	7.81701	7.85913	+0.54	+1.21	±1.6403
German D-Mark	2.11083	2.08115	−1.41	−0.74	±1.1127
French Franc	6.87316	6.82839	−0.65	+0.02	±1.3659
Dutch Guilder	2.37833	2.35267	−1.08	−0.41	±1.5069
Irish Punt	0.764976	0.764218	−0.10	+0.57	±1.6683
Italian Lira	1476.95	1442.94	−2.30	−1.95	±4.0744

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

POUND SPOT—FORWARD AGAINST THE POUND

Dec. 9	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.4200-1.4255	1.4225-1.4235	0.60-0.57c pm	4.93	1.82-1.77 pm	5.05
Canada	1.9553-1.9594	1.9580-1.9590	0.50-0.41c pm	2.79	1.51-1.36 pm	2.93
Netherlands	3.22½-3.25¼	3.24¼-3.25¼	1½-1¼c pm	5.08	4⅛-4pm	5.16
Belgium	59.31-59.90	59.80-59.90	21-16c pm	3.71	55-47pm	3.41
Denmark	10.78-10.87	10.86-10.87	1⅛-¾ ore pm	1.17	3⅝-2¼ pm	1.17
Ireland	1.0470-1.0560	1.0540-1.0550	0.20-0.32c dis	−2.96	0.55-0.90 dis	−2.75
W. Germany	2.85½-2.87¾	2.86¾-2.87¾	1½-1¼ pf pm	6.01	4½-4¼ pm	6.09

FINANCIAL FUTURES

Gilt prices firmer

GILT PRICES were firmer in the London International Financial Futures Exchange yesterday in volatile trading. The March contract traded over 17,000 lots, well up from Monday's 10,000.

Sentiment was influenced by the latest opinion poll which showed the Conservatives ahead of the Labour Party by an increased margin. The March contract opened at 108-01 up from 107-17 on Monday and after briefly touching a low of 108-00, moved up to a high of 108-17 before closing at 108-14. Early attempts to push prices firmer failed to attract much follow-through and values fell back only to be marked up once again as short covering developed.

Trading elsewhere was generally featureless with dealers already commenting on the lack of participation ahead of the year end. Sentiment for the New Year was not particularly bullish but there was a general feeling that prices were unlikely to finish the year much different from prevailing rates.

Three-month sterling deposits for March delivery opened at 88.62 against Monday's close of 88.61 and moved up to a high of 88.67 before closing at 88.66. There was nothing to affect trading with cash prices unchanged from Monday.

US bonds were firmer again, with sentiment still suggesting that the market was looking for another cut in US discount rates in the New Year. The March contract opened at 99-16 up from 98-21 and traded between 99-13 and 99-19 for most of the morning. Chicago came in willing to continue the firmer trend but there was a distinct lack of follow-through and prices were driven down to 99-01 before recovering at the close to 99-12.

EUROPEAN OPTIONS EXCHANGE

Series		Feb. 87 Vol.	Last	May 87 Vol.	Last	Aug. 87 Vol.	Last	Stock
KLM P	Fl.55	30	9.50	200	9.50	—	—	"
NAT. NED. C	Fl.85	206	1	53	5.08	—	—	Fl.82.70
NAT. NED. P	Fl.80	94	0.90	13	3	—	—	"
PHILIPS C	Fl.60	173	0.10	—	—	—	—	Fl.47.10
PHILIPS P	Fl.50	19	4.30	139	5.40B	7	5.80B	"
ROYAL DUTCH C	Fl.210	327	3.50	227	8.40	2	10.30	Fl.208.70
ROYAL DUTCH P	Fl.200	291	1.30	38	4.20	—	—	"
ROBECO C	Fl.100	—	—	5	1.50	—	—	Fl.95.60
UNILEVER C	Fl.500	101	24.90	14	40.90	—	—	Fl.519.50
UNILEVER P	Fl.500	119	3.90	24	12.30	5	20A	"

TOTAL VOLUME IN CONTRACTS: 36,503

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

	%		%		%
ABN Bank	11	Citibank NA	11	● Morgan Grenfell	11
Adam & Company	11	Citibank Savings	¶12.45	Mor Credit Corp. Ltd.	11
Allied Arab Bk Ltd	11	City Merchants Bank	11	Nat Bk. of Kuwait	11
Allied Dunbar & Co	11	Clydesdale Bank	11	National Girobank	11
Allied Irish Bank	11	Comm. Bk. N. East	11	Nat Westminster	11
American Exp. Bk	11	Consolidated Cred	11	Northern Bank Ltd	11
Amro Bank	11	Co-operative Bank	*11	Norwich Gen. Trust	11
Henry Ansbacher	11	Cyprus Popular Bk	11	PK Finans. Intl (UK)	11½
ANZ Banking Group	11	Duncan Lawrie	11	Provincial Trust Ltd	12
Associates Cap Corp	11	E. T. Trust	12	R. Raphael & Sons	11
Banco de Bilbao	11	Equatorl Tst C'p plc	11	Roxburghe G'rantee	11½
Bank Hapoalim	11	Exeter Trust Ltd	11½	Royal Bk of Scotland	11
Bank Leumi (UK)	11	Financial & Gen. Sec	11	Royal Trust Bank	11
Bank Credit & Comm	11	First Nat. Fin. Corp	11½	Standard Chartered	11
Bank of Cyprus	11	First Nat. Sec. Ltd	11½	Trustee Savings Bank	11
Bank of Ireland	11	● Robert Fleming & Co	11	UDT Mortgage Exp.	¶12.25
Bank of India	11	Robert Fraser & Ptrs	12	United Bk of Kuwait	11
Bank of Scotland	11	Grindlays Bank	‡11	United Mizrahi Bank	11
Banque Belge Ltd	11	● Guinness Mahon	11	Westpac B'nking Corp	11
Barclays Bank	11	HFC Trust & Savings	11	Whiteaway Laidlaw	11½
Benchmark Tst Ltd	11	● Hambros Bank	11	Yorkshire Bank	11
Beneficial Trust Ltd	12	Heritable & Gen. Tst	11		
Berliner Bank AG	11	● Hill Samuel	§11		
Brit. Bk. of Mid. East	11	C. Hoare & Co	11		
● Brown Shipley	11	Hongkong & Shangh'	11		
CL Bank Nederland	11	Knowsley & Co. Ltd	11½		
Canada Permanent	11	Lloyds Bank	11		
Cayzer Ltd	11	Mase Westpac Ltd	11		
Cedar Holdings	12	Meghraj & Sons Ltd	11		
● Charterhouse Bank	11	Midland Bank	11		

● Members of the Accepting Houses Committee. * 7-day deposits 6.69%. 1-month 7.03%. Top Tier—£2,500+ at 3 months' notice 10.03%. At call when £10,000+ remains deposited. ‡ Call deposits £1,000 and over 6¾% gross. ¶ Mortgage base rate. § Demand deposit 6.69%. Mortgage 12¼%.

MONEY MARKETS

UK rates steady

INTEREST RATES were virtually unchanged in London yesterday in very quiet and featureless trading. There were no new factors to influence the market and proximity of Christmas tended to suggest that rates were unlikely to show much change for the rest of the year. Three-month interbank money was unchanged at 11¼-11⅛ per cent

UK clearing bank base lending rate 11 per cent since October 15

while the overnight rate touched a high of 12 per cent after opening at 10⅝-10¾ per cent before finishing bid at 11 per cent.

The Bank of England forecast a shortage of around £500m with factors affecting the market including maturing assistance and a take up of Treasury bills together draining £416m. Exchequer transactions a further £45m and a rise in the note circulation of £35m. Banks brought forward balances £5m below target. The Bank gave assistance in the morning of £87m through outright purchases of £5m of eligible bank bills in band 3 at 10⅞ per cent and £82m in band 4 at 10⅞ per cent.

Further help of £179m was given in the afternoon through outright purchases of £43m of eligible bank bills in band 2 at 10½ per cent and £2m in band 3 at 10⅞ per cent. In band 4 it bought £2m of local authority bills and £132m of eligible bank bills at 10⅞ per cent. Late assistance came to £80m, making a total of £346m.

In Frankfurt the Bundesbank allocated DM 12.4bn to commercial banks at its latest sale and repurchase tender at 4.6 per cent. This was more than double the value of an expiring facility of DM 6.1bn. and underlined the acute shortage of funds in the money market at the moment. A rise in the note circulation ahead of Christmas, very large corporate tax payments and year end book squaring have all combined to push call money up to 5.5 per cent. At this level banks can borrow from the Bundesbank through the Lombard facility. The DM 12.4bn, which will be allocated to successful applicants today, was a little more than had been expected although dealers were quick to point out that the market still had to cope with a considerable drain on liquidity before the end of the month.

In Paris call money was quoted at 8¼-8⅜ per cent, sharply higher than Monday's rate of 7⅞-7½ per cent. Period rates were also firmer as the market still showed concern about Monday's sharp fall in the value of the French franc.

In Brussels the Belgian central bank increased the rate on three-month Treasury certificates to 7.40 per cent from 7.35 per cent. Four month bond fund paper was also higher at the weekly auction, rising to 7.50 per cent from 7.40 per cent. The rate on six-month Treasury paper was increased to 7.60 per cent from 7.40 per cent.

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

Undated

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

AMERICANS—Cont.

CANADIANS

BANKS, HP & LEASING

Hire Purchase, Leasing, etc.

BEERS, WINES & SPIRITS

BUILDING, TIMBER, ROADS

BUILDING, TIMBER, ROADS—Cont.

CHEMICALS, PLASTICS

DRAPERY AND STORES

DRAPERY & STORES—Cont.

ELECTRICALS

ENGINEERING

ENGINEERING—Continued

FOOD, GROCERIES, ETC

HOTELS AND CATERERS

INDUSTRIALS (Miscel.)

INDUSTRIALS—Continued

هكذا من الأصل

هذا ما عند الأصل

INDUSTRIALS—Continued

1986 High	Low	Stock	Price	+ or –	Div Net	C'vr	Y'ld Gr's	P/E
102	70	‡Metsec 10p	78	–2	12.45	2.6	4.4	12.0
78½	45	Mitchell Cotts	66	.....	1.5	2.1	3.2	17.0
128	81	‡Molins & Grane 10p	124	.....	12.7	2.0	3.1	15.0
323	210	Morgan Crucible	331	.....	t8.5	1.5	3.8	20.7
23½	15½	‡Mowns IWI F.A. 20p	25½	.....	—	—	—	—
157	65	Myson Grp 10p	147	–1	t2.63	2.6	2.5	19.0
365	230	‡NMW Computers	230	.....	t6.0	3.8	3.7	13.2
131	27	Nash Inds.	123	+7	t0.5	—	0.6	—
*27½	12½	Neil & Spencer 10p	13	.....	—	—	—	—
39	28	Newman Inds 10p	36	–1	t0.8	1.5	3.1	27.8
134	65	Noble & Lund 10p	84	.....	0.7	4.3	1.2	27.7
65	39	Nolton	47	.....	1.2	2.9	3.6	13.5
150	96	‡Norank Systems 5p	129	+2	m1.5	—	1.6	16.5
286	187	Nortros	298	–5	t9.3	2.3	5.2	11.5
195	49	Nu-Swift 5p	195	+1	t3.9	2.1	2.5	26.2
£386½	£228	OCE 9pc Cnv 1987-92	£322½	.....	Q9%	—	t2.8	—
118	80	Oakwood Grp.	88	.....	$5.0	1.3	‡	12.2
250	173	Office & Elect	175	–1	8.5	2.9	6.8	7.1
34	26	‡Omnitech 1p	30	.....	—	—	—	—
36	18	‡Optometrics $0.01	20	.....	—	—	—	—
890	500	Oriflame £1	865	.....	t24.5	2.1	4.0	16.8
10	5	Overstone 12½c	7½	.....	g03.23c	1.●	14.3	3.7
142	85	‡PCT Grp 10p	123	+3	t3.2	—	3.8	—
£20½	£13¾	PLM 'B' Sk 25	£34¾	–1	Q23.2%	0.3	4.1	—
195	114	PSM Intl.	193	.....	s‡d5.5	2.1	4.1	14.4
255	160	‡Pacer Systems $0.01	170	–5	h03.9c	3.4	1.6	18.9
78	46	‡Pacific Sales 10p	46	.....	3.0	1.4	9.2	11.0
445	246	Parker Knoll 'A'	416	+2	12.0	3.2	4.1	10.9
222	83	‡Parkfield Group 2p	196	+1	3.6	4.2	2.6	12.5
53	17	‡Pavion Intl	20	–1	—	—	—	5.3
£130	£64½	Do 11pc CnLn '94-02	£78	–2½	Q11%	—	14.1	—
608	393	Pearson	575	–3	710.0	2.8	2.4	18.7
50	17	Peek Holdings 3p	36	–1½	—	—	—	—
176	88	Peerless	168	–2	6.3	1.5	5.3	35.0
519	141½	Pentland 10p	490	–5	t‡0.75	22.4	0.2	27.8
£14	775	Photo-Me	£13½	.....	5.75	10.0	0.6	20.3
624	315	Pilkington Br. £1	620	+2	‡711.5	2.7	3.1	13.3
218	68	Do. Warrants	218	+2	—	—	—	—
£511½	£293	Pitney-Bowes Cnv. Ln.	£502½	.....	Q5½%	—	1.1	—
96	52	Plastic Const. 10p	79	.....	t2.8	2.5	5.0	11.1
*9	5½	Platignum 5p	6½	.....	—	—	—	11.2
200	115	‡Plaxton Inc.	185	.....	3.08	4.1	2.4	11.0
25	9½	Polymark 10p	24	.....	—	—	—	—
108	49	Do. CnPfA £1	108	.....	10%	—	13.0	—
365	195	Portals	269	+5	t‡7.33	3.4	4.0	10.3

LEISURE—Continued

1986 High	Low	Stock	Price	+ or –	Div Net	C'vr
123	91	‡Lewmar	123xd	+20	a2.63	3.4
98	71	‡Marina Dev 50p	80	–1	R3.13	3.0
154	143	Mecca Leisure 10p	154	+1½	R4.1	2.2
220	110	‡Media Tech Int 20p	110	–3	2.8	4.5
*170	130	Metdminster 10p	170	.....	6.25	1.9
220	138	‡Miss World 10p	180	+5	15.2	3.3
90	62	Nationwide Leisure	63	–1	Q.75	2.5
17	8	‡Namio Int 20c	8	.....	—	—
294	114	Owed Ex Hds $0.125	240	.....	—	—
41½	23	‡Owners Abroad 5p	39	.....	1.5	2.3
90	46	Photax (Lon.)	80	.....	—	—
34	25½	‡P'billy Radio NV 5p	31	.....	2.0	●
78	25½	‡Pinetable 10p	78	+4	—	—
391	280	Pleasurama 5p	320	+1	t7.5	3.6
178	136	Do 7pcCvCnvRedPf	151	+3	7%	—
157	94	Prestwich	106	.....	0.85	6.9
43	18	‡Radio City 'A' NV	38	.....	—	—
58	33	‡Radio Clyde NV	56	.....	3.25	0.9
403	322	Really Useful Grp 5p	373	–5	11.25	2.2
64	36½	Riley Leisure 10p	57	+½	—	—
230	129	Saga Hols. 20p	164	–1	4.6	2.6
355	140	Samuelson Grp 20p	188	+3	2.4	6.5
123	69	‡Sangers Photo 10p	71	.....	‡12.2	1.3
178	93	Scaoro 20p	108	+2	n4.0	3.5
363	175	Scott. TV 10p	346	.....	t10.5	3.3
27	7	‡Select TV 10p	26	.....	—	—
37	20	‡Spectrum 5p	23	–2	‡1.2.0	4.8
171	119	Stanley Leisure	171	.....	a3.25	2.8
49½	31	TSW 5p	48½	.....	2.05	2.6
226	137	‡TV-am 10p	203	.....	R5.75	2.6
*279	144	TVS N/Vtg 10p	248	+1	M10.0	2.5
108	72	‡Television Secs 50p	72	–2	t7.0	2.9
340	219	Thames TV	298	–3	a9.5	1.9
74	50	Tottenham Hotspur	65	.....	—	—
96	60	‡Trilion 10p	82	.....	L1.1	3.3
260	140	‡Tyne Tees TV 'A' £1	249	–1	t‡10.5	2.0
111	104	Ulster TV N/V 'A'	151	.....	6.25	3.6
100	36	‡Viewplan 5p	60xd	.....	‡1.26	1.4
204	118	WSL 5p	164	.....	a0.71	14.1
32	17½	Webb (Jos.) 5p	30	.....	0.51	1.3
29½	16½	‡Williams (Rex) 5p	19	.....	0.91	1.0
188	136	Yorkshire TV	175	.....	R6.25	2.4
186	125½	Zetters 5p	183	.....	5.0	3.4

MOTORS, AIRCRAFT TRADES

Motors and Cycles

Commercial Vehicles

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Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

INSURANCES

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INVESTMENT TRUSTS—Cont.

Finance, Land, etc

FINANCE, LAND—Cont.

OIL AND GAS

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

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Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

Tins

Miscellaneous

NOTES

REGIONAL & IRISH STOCKS

"Recent Issues" and "Rights" Page 42 (International Edition Page 39)

LONDON STOCK EXCHANGE

Account Dealing Dates

Option *First Dealings	Declarations	Last Dealings	Account Day
Nov 24	Dec 4	Dec 5	Dec 15
Dec 8	Dec 18	Dec 19	Jan 5
Dec 22	Jan 8	Jan 9	Jan 19

* New time dealings may take place from 9.00 am two business days earlier.

Government bonds move higher as British Gas again features in good equity market

A further advance in the UK stock market owed much to the continued activity in British Gas shares, and to rumours that this week's meetings between Mr James Baker, US Treasury Secretary, and the Common Market Finance Ministers, may herald another round of co-ordinated reductions in global interest rates. However, although equities closed near the day's highs, gains in Government bonds were trimmed as sterling failed to follow through on an initial advance.

The FT-SE 100 index ended a net 12.5 higher at 1635.9, while the FT Ordinary index, at 1284.4, gained 6.9.

Turnover in British Gas, at 306m shares, again headed the market list, although it was less than half of Monday's total, which itself represented only half a trading session.

After trading unchanged at 62½p for much of yesterday, shares in British Gas ended 1p off at 61½p. Demand from UK and foreign institutions remained good, but the London marketmakers appear to have completed the build-up of their trading books.

The near term outlook for the share price depends on the behaviour of the UK private investors who took up 64 per cent of the 4bn shares offered, and are mostly unable to trade their stock until next week when allotment letters will be delivered.

Market traders believe that many private investors will hold their British Gas shares as relatively long-term holdings, and that sellers will, consequently, prove "fewer than in the case of British Telecom and Trustee Savings Bank," to quote one leading dealer.

The rest of the oil and gas sector, now the home of the newly-issued Gas shares, traded quietly ahead of Thursday's meeting of the OPEC ministers—with London and the US shying away from reports of an impending deadlock over the Saudi call for an $18 a barrel oil price, together with unchanged output quotas.

The strongest gains came in the financial stocks which would benefit from a fresh cut in interest rates. Although London interbank rates showed little change, bank stocks moved up sharply as the January round of interim statements hove in sight.

GEC traded heavily, rallying strongly in late dealings after a weak start which reflected nervousness over next week's decision by the UK Defence Ministry on Britain's next early-warning system.

Unilever Ltd remained strong on favourable comment on its bid for Chesebrough-Pond's, although the NV shares eased.

Government bonds surged up by a full point in early trading, reflecting the late rise in New York, but retail buyers failed to follow through after a good start which was led by overseas houses. Gains were soon trimmed and closing gains ranged to ⅝. The FT Government securities index added 0.19 to 81.53.

A good business was transacted in all four of the major clearers as investors chased quotations higher from the outset. **NatWest**, in which 1.8m shares changed hands, rose 14 at 500p, while **Midland** (1.7m) added 15 at 563p. **Barclays** put on 12 at 490p and **Lloyds** firmed 14 at 442p.

Composite insurances took Monday's gains a substantial stage further. **Sun Alliance** jumped 17 afresh at 860p and **Royals** added 26 at 853p. **General Accident** rose 11 at 834p, while **GRE** firmed 10 at 784p and **Commercial Union** improved 5 at 286p. Elsewhere, **Equity and Law**, in which Mr Ron Brierley's IEP Securities holds an 11 per cent stake, gained 6 at 319p, while **Prudential** put on 9 at 829p.

Regional Breweries again attracted a fair measure of attention following another batch of company trading statements. **Vaux** hardened slightly in initial response to the preliminary figures but, following a closer examination of the profits breakdown, settled 8 cheaper on balance at 477p. A similar situation arose in **J. A. Devenish** which closed 9 easier at 203p, the profits on property disposals proving to be in excess of market estimates.

Leading Building issues showed little alteration following another quiet trade although Timbers attracted above average interest following interim results from **Meyer International**. MI, a rising market of late, settled 5 cheaper at 291p following the half-year statement, but **Magnet and Southerns** were a firm market at 280p, up 4, while **Phoenix Timber**, half-timer due tomorrow, added 3 to 85p. Further speculative demand in a restricted market lifted USM-quoted **United Ceramics** 13 to 113p, a two-day gain of 23. **Atwoods** attracted buying interest on talk of an imminent announcement relating to its US interests and the price rose 9 to 222p.

ICI attracted sporadic buying interest following reports of a broker's favourable circular and the close was ⅛ dearer at £11⅛.

An otherwise lacklustre session among Retailers was enlivened by Jewellers which belatedly responded to interest in anticipation of the usual Christmas boom. **Ratners** were to the fore and advanced 9 to 261p, while **Ernest Jones**, 60p, and **Time Products**, 83p, improved 4 and 2½ respectively. **Asprey** were marked 20 higher to 555p following the increased interim profits. Elsewhere, sporadic interest was noted for **Alexon**, 7 to the good at 209p, and **Gabicci**, 5 up for a two-day gain of 10 to 138p. **Alfred Preedy**, on the other hand, fell 4 to 132p in reaction to the continued first-half deficit. Leading Stores held close to the overnight positions. **Dixons** eased a couple of pence to 330p following details of a £60m Convertible bond issue.

GEC rally

Reflecting revived hopes that the contract for the UK's early-warning system will go to GEC's Nimrod system and not the American Boeing AWAC system—a decision is expected on December 18—helped **GEC** recover some of the ground lost last week following the disappointing interim results, the close being 6 higher at 171p after a turnover of nearly 10m shares. **British Telecom** drew encouragement from the latest opinion poll giving the Conservatives a good lead over the opposition and rose 3 to 200p, after 202p, ahead of tomorrow's interim results. **Cable and Wireless** put on 6 at 324p and **Plessey** firmed 4 at 180p as did **Racal** at 178p. **Thorn EMI** softened a penny at 477p awaiting today's interim figures. Elsewhere, **Goring Kerr** jumped 25 to 270p in response to the better-than-expected results and **Automated Security** reflected revived speculative demand at 189p up 7. **Electronic Machine** added 3 at 86p, but **Humberside Electronic** softened a fraction at 6½p on news of the final dividend omission and sharp profits contraction.

Selected Engineering achieved good gains, including **TACE** which moved up 20 to 360p following a confident preliminary trading statement. **Mitchell Somers** were persistently supported and the business soon aroused talk of bid possibilities, leaving the shares 6 higher at 129p. Other strong features with rises of around 9 were **600 Group**, at 113p, and **Chamberlain and Hill**, at 113p. Press comment enlivened **Babcock International**, up 5 at 188½p, while **Samuel Heath** were raised 45 in a restricted market to 395p on share stake news. **Stothert and Pitt** improved 3 to 73p and **Tex Group** were 5 dearer at 131p, the latter awaiting today's interim results.

Rowntree Mackintosh were the pick of the Food leaders, rising 12 to 412p ahead of an analyst's meeting scheduled for today. **United Biscuits** firmed 4 to 236p in a market short of stock, while **Argyll Group** revived with a gain of 8 at 313p. Buyers also favoured **Avana**, 5 dearer at 463p and **Sidney C. Banks**, up 7 more at 375p. Perennial takeover favourite **Meat Trade Suppliers** picked up 10 at 160p in a restricted market.

Leading Hotels, good of late reflecting vague bid rumours, turned easier amid profit-taking, **Grand Metropolitan** shedding 5 to 449p and **Trusthouse Forte** 4½ to 181p. Elsewhere, **Midsummer Inns** rose 10 to 445p in reply to the more-than-doubled annual profits.

Glaxo up again

Reports that analysts had upgraded their profits forecasts for **Glaxo** in the wake of the chairman's bullish AGM statement helped the shares attract renewed support and close an active session 22 higher making a two-day advance of 43 at 945p. Comment on the excellent interim results induced buying of **Pilkington** ahead of today's official defence document against the hostile bid from BTR and the shares closed 2 better at 620p, while a gain of 6 to 274p in **BTR** gave rise to some speculation that an increased share-exchange offer from BTR could be imminent. **Beecham** added 5 to 423p and **Unilever**, still reflecting the Chesebrough Ponds acquisition, added ⅛ more at £22. Elsewhere in miscellaneous Industrials, **Spong** rose 1½ more to 24p, after 25p, following comment on **Cleves** Investment's purchase of a 5.29 per cent stake in the company and **Redfearn Glass** added 7 more at 325p on continuing hopes of a bid from Mr Ron Brierley's IEP Securities. **Transport Development** gained 5 to 205p amid revived speculation about a possible bid from Bunzl, while **Siebe** jumped 20 to 803p in response to the bumper interim results. **Gleves** returned to favour at 148p, up 11, and gains of 10 and 13 respectively were seen in **Lodge Care**, 123p, and **Diploma Investments**, 214p. Hopes that sales of condoms would increase sharply as a result of the AIDS epidemic helped **London International** move up 8 at 250p, while **Broken Hill Proprietary** rose 8 at 398p on the announcement that Bell Resources had assumed the underwriters role for the placement of Equiticorp's 5 per cent stake in BHP. **Granada**, on the other hand, softened 4 at 287p following profit-taking in the wake of the preliminary results and **Whitecroft** lost 13 at 247p in reaction to the disappointing half-year results and proposed £15.2m rights issue. Uninspiring trading statements also prompted a fall of 3 to **Bogod Pelepah**, at 30p and a similar decline to 255½p in **Norcros**.

Suggestions of an overseas group building up a stake aroused fresh demand for **Caffyns** which lifted the shares 20 further to 238p. The better-known Component manufacturers were overshadowed for the second consecutive session by **Supra**. Still influenced by the agreed share exchange terms, or partial cash alternative announced by **Evode** on Monday, Supra advanced further to 91p, for a fresh rise of 5, while the bidder gained 3 to 123p. Sporadic US support raised **Jaguar** 5 to 528p.

Associated Newspaper's 2.8 per cent shareholding in Herald and Weekly Times, which has recently responded strongly to a bid from Rupert Murdoch's News Corporation, stimulated revived buying of the shares ahead of the UK group's preliminary statement, due on January 8. The price of Associated eventually moved up 15 to a 1986 high of 371p. Recently-firm **Chapman Industries** remained at 225p following good interim figures, while Irish support lifted **Jefferson Smurfit** 15 to 325p. **Norton Opax** regained the previous session's fall, closing 4 up at 125p but **McCorquodale** eased 5 further to 285p. **Saatchi and Saatchi** encountered both domestic and US interest and advanced 17 further to 720p.

Abaco Investments touched 71p prior to closing a net 2½ up at 69½ following the agreed acquisition of estate agents Hampton & Sons for £15m and the deal whereby Standard Chartered will subscribe for some 25.4m new Abaco shares at 74p per share at a cost of £18.8m, part of which will be used to finance the cash element of the Hampton acquisition; Standard Chartered, 11 up at 794p, will, as a result of the subscription, hold a 12.7 per cent stake in the enlarged Abaco equity.

Mountleigh rose ¼ to £10⅞ on rumours of a broker's circular, while **Imry**, still awaiting the outcome of bid talks with Arbuthnot Properties, edged up 5 to 400p. **Marler** firmed 5 to 590p and **Parkdale** improved a penny to 88p.

Thoughts of the benefits which should accrue from the group's most recent acquisition, touched off good demand for **Tootal** bringing a close of 3½ higher at 104p.

Investment Trust Capital shares were again favoured and several, including **Ambrose Investment**, at 430p, and **Tor Investment**, at 465p, made useful gains.

Oils quiet

British Gas continued to dominate trading in the energy sector and the oil majors did little more than mark time pending the start of the forthcoming *Opec meeting*; the buyers preferred to stay on the sidelines following reports that the Opec talks face deadlock as Saudi Arabia continues to press for an immediate return to a fixed price of $18 a barrel, while maintaining current output quotas. **Tricentrol's** third-quarter results matched the recent gloomy predictions and the price eased 2 to 58½p.

Business in South African mining markets remained at an extremely low ebb. Bullion's reluctance to break out of the current trading range—the metal settled $2.25 lower at $387 an ounce—effectively choked off interest from Johannesburg. Investors in the Cape also showed equanimity at the Reserve Bank's decision to cut domestic bank lending rates to 9.5 per cent.

Among top-quality Golds, **Vaal Reefs** dipped ⅞ to £56¾, while losses of ¾ were noted for **Randfontein**, £61⅞, and "**Amgold**," £50⅝. The announcement of interim dividend payments from *the Gold Fields group*—most fell in line with general expectations — had little appreciable effect on sentiment. The FT Gold Mines index fell 4.4 to 320.0.

London-domiciled Financials continued to feature **Consolidated Gold Fields**; the shares advanced 10 more for a two-day improvement of 18 to 665p as speculation persisted of an imminent break-up bid for the company. Platinum producer **Rustenberg** were marked 27 lower to 710p following reports of an accident last Thursday which is expected to reduce short-term capacity by some 15 per cent. Rivals **Impala** hardened a shade to 790p.

Activity in Australian mines remained at a low level as "down-under" interest continued to centre on industrial counters. Nevertheless, dealers reported occasional demand for **Kia Ora**, finally 5 dearer at 36p.

Traded Options

Demand for Traded Options held up remarkably well to Monday's record levels. Total contracts transacted yesterday amounted to 75,334—the second highest since the market's inception. In contrast to Monday's business, however, activity centred on call positions which attracted 50,852 trades, as opposed to 24,482 puts. Not surprisingly, **British Gas** accounted for the lion's share of the session's turnover with 35,534 calls and 14,931 puts struck. Dealers also reported enthusiasm for calls in **British Telecom**, **Hanson Trust** and **Dixons**. The FT-SE 100 index contributed 801 calls and 1,060 puts.

Traditional Options

- First dealings Dec 1 Dec 15 Jan 5
- Last dealings Dec 12 Jan 2 Jan 16
- Last declaration Mar 5 Mar 19 Apr 2
- For Settlement Mar 16 Mar 30 Apr 13

For rate indications see end of Unit Trust Service

Money was given for the call of *Mitchell Cotts*, *Amstrad*, *Expamet International*, *Abaco*, *Buckleys Brewery*, *Benjamin Priest*, *Elswick*, *Camford Engineering*, *London Investment Trust*, *Apricot Computers*, *British Gas*, *Afro-West*, *Systems Designers*, *Memcom*, *Neil and Spencer*, *J. T. Parrish*, *Dalgety*, *Wellcome*, *Reabrook*, *Conroy*, *Astra Industrial*, *Phicom*, *TSB*, *Conder*, *British Car Auctions*, *Sound Diffusion*, *Johnson and Firth Brown*, *Chloride*, *Equity and General*, *Morgan Grenfell* and *Ferranti*. *British Gas* also attracted interest for the put and the double.

FINANCIAL TIMES STOCK INDICES

	Dec. 9	Dec. 8	Dec. 5	Dec. 4	Dec. 3	year ago	1986 High	1986 Low	Since Compilation High	Since Compilation Low
Government Secs	81.53	81.34	81.64	81.21	81.55	82.81	94.51 (18/4)	80.39 (20/1)	127.4 (9/1/35)	49.18 (3/1/75)
Fixed Interest	88.55	88.45	88.49	88.45	88.56	88.68	97.68 (7/7)	86.55 (23/1)	105.4 (28/11/47)	50.53 (3/1/75)
Ordinary ♥	1,284.4	1,275.5	1,268.5	1,265.9	1,269.1	1,115.7	1,425.9 (3/4)	1,094.3 (14/1)	1,425.9 (3/4/86)	49.4 (26/6/40)
Gold Mines	320.0	324.4	326.3	331.8	317.0	263.0	357.8 (22/9)	185.7 (18/7)	734.7 (15/2/83)	43.5 (26/10/71)
Ord. Div. Yield	4.46	4.46	4.49	4.49	4.48	4.41				
Earnings Yld.% (full)	10.50	10.46	10.49	10.50	10.40	10.95				
P/E Ratio (net) (*)	11.70	11.69	11.62	11.66	11.74	11.26				
SEAQ Bargains (5pm)	35,432	33,250	29,142	24,916	25,431	—				
Equity Turnover (£m)	—	1,162.22	1,346.71	—	1,310.84	485.84				
Equity Bargains	—	49,802	41,749	—	38,471	24,550				
Shares Traded (ml)	—	666.6	504.8	—	515.2	233.0				

S.E. ACTIVITY

Indices	Dec. 8	Dec. 5
Gilt Edged Bargains	102.2	121.4
Equity Bargains	322.7	270.5
Equity Value	2349.1	2722.0
5-Day Average		
Gilt Edged Bargains	123.5	127.5
Equity Bargains	267.9	250.5
Equity Value	2295.79	2289.2

♥ Opening	10 a.m.	11 a.m.	Noon	1 p.m.	2 p.m.	3 p.m.	4 p.m.
1279.2	1279.7	1280.1	1281.2	1281.3	1281.2	1282.3	1282.7

Day's High 1285.2. Day's Low 1279.2

Basis 100 Govt. Secs 15/10/26, Fixed Int. 1928, Ordinary 1/7/35, Gold Mines 12/9/55, SE Activity 1974 *Nil—11.25.

LONDON REPORT AND LATEST SHARE INDEX: TEL. 01-246 8026

NEW HIGHS AND LOWS FOR 1986

NEW HIGHS (145)

AMERICANS (1), BANKS (2), BREWERS (1), BUILDINGS (8), CHEMICALS (6), STORES (5), ELECTRICALS (7), ENGINEERING (6), FOODS (2), HOTELS (1), INDUSTRIALS (15), INSURANCE (1), LEISURE (3), MOTORS (3), NEWSPAPERS (2), PAPER (9), PROPERTY (8), TEXTILES (3), TRUSTS (55), OVERSEAS TRADERS (2), MINES (5).

NEW LOWS (19)

BANKS (1) MCorp, ELECTRICALS (3) Datron Intl, Rodime, Systems Reliability, FOODS (4) Cranswick Mill, Israel (Jack L.), Northern Foods, Wold, INDUSTRIALS (4) High Point Services, Isotron, Sidlaw, TSL Thermal Syndicate, LEISURE (2) Media Tech Intl, Television Services, PAPERS (1) Fitch, PROPERTY (1) Sarakreek, SHIPPING (1) Sea Containers, TRUSTS (1) India Fund, MINES (1) Regent Mining.

TRADING VOLUME IN MAJOR STOCKS

The following is based on trading volume for Alpha securities dealt through the SEAQ system yesterday until 6.00pm.

Stock	Volume 000's	Closing price	Day's change	Stock	Volume 000's	Closing price	Day's change
ASDA-MFI	1,800	150	−1	Land Securities	102	345	+2
Allied Lyons	381	306	+2	Legal & Gen.	761	247	+2
BAT	1,000	466	+6	Lloyds Bnk	1,400	442	+14
BOC	999	352	+2	Lonrho	741	228	+½
BTR	4,400	274	+6	Marks & Spencer	2,200	185	—
Barclays	1,500	490	+12	Midland Bank	1,700	563	+15
Bass	334	727	+3	NatWest Bank	1,800	500	+14
Beecham	1,000	423	+5	Pearson	270	575	−3
Blue Circle	230	648	—	P & O	571	503	+2
Boots	4,900	232	+3	Pilkington Bros	3,900	620	+2
Brit. Aero	2,500	488	+2	Plessey	2,600	180	+4
Brit. Gas	306,000	61½	−1	Prudential	312	829	+9
Britoil	1,300	158½	−1	Racal	3,800	178	+5
BP	2,200	682	—	Rank Org	829	525	+6
Brit. Telecom	14,000	200	+3	Reckitt & Col	372	797	+3
Burton	2,000	266	—	Reuters	368	589	−2
Cable & Wire	2,400	324	+6	RTZ	582	680	+2
Cadbury Schwps.	495	165	+1	Rowntree Mac	1,700	412	+12
Coats Viyella	767	454	+8	Royal Insurance	1,800	853	+26
Comm. Union	1,400	268	+5	STC	682	168	—
Cons. Gold	526	665	+10	Sainsbury	526	415	+1
Courtaulds	977	312	+1	Sears	4,300	126	+1
Dee Corp	845	210	—	Sedgwick	739	325	+2
Dixons Grp	5,200	330	−2	Shell Trans	590	930	+5
Fisons	315	528	−1	Smith & Nephew	289	116	+1
Gen. Accident	467	834	+11	Standard Chart	271	794	+11
Gen. Elect	10,000	171	+6	Storehouse	777	285	+2
Glaxo	2,500	945	+22	Sun Alliance	778	860	+17
Grand Met	1,900	449	−5	TSB	5,600	76	—
Gus "A"	42	£10⅞	—	Tesco	1,200	400	−1
Guardian R.E.	104	784	+10	Thorn EMI	1,300	477	−1
GKN	696	272	−1	Trafalgar House	4,400	264	—
Guinness	2,000	287	−4	Trusthouse Forte	4,500	181	−4½
Hanson Trust	4,300	191½	+2½	Unilever	110	£22⅛	+⅛
Hawker Sidd.	45	443	—	United Biscuits	2,100	236	+4
ICI	441	£11⅛	+⅛	Wellcome	1,200	193	+4
Jaguar	956	528	+5	Woolworth	111	650	+5
Ladbroke	156	358	−1				

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	72	11	30
Corporations, Dominion and Foreign Bonds	12	4	33
Industrials	492	369	673
Financial and Properties	196	97	290
Oils	22	29	61
Plantations	1	7	6
Mines	45	60	80
Others	43	88	66
Totals	883	665	1,259

FT-ACTUARIES INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS

Tuesday December 9 1986

FIXED INTEREST

LONDON TRADED OPTIONS

LONDON RECENT ISSUES

EQUITIES

FIXED INTEREST STOCKS

"RIGHTS" OFFERS

WORLD STOCK MARKETS

AUSTRIA

Dec. 9	Price Sch.	+ or —
Credit'nst'lt pp.	2,885	—20
Goesser	5,390	......
Interunfall	13,500	......
Jungbunzlauer	11,690	+16
Laenderbank	8,150	—45
Perlmooser	535	......
Steyr Daimler	152	+1
Veitscher Mag	11,149	—26

BELGIUM/LUXEMBOURG

Dec. 9	Price Frs.	+ or —
S.B.L.	3,130	—30
Banq. Gen. Lux.	15,800	......
Banq. Int. A.Lux.	15,500	—50
Bekaert	10,050	—56
Ciment CBR	4,085	+26
Cockerill	132	—1
Delhaize	2,940	—60
EBES	5,050	+80
Electrobel	14,885	......
Fabrique Nat.	1,930	—15
GB Inno BM	8,860	+80
GBL (Brux)	3,620	—30
Generale Bank	5,050	......
Gevaert	6,590	+140
Hoboken	7,510	+16
Intercom	3,080	......
Kredietbank	4,285	+35
Pan Hldgs.	16,900	+50
Petrofina	9,920	+50
Royale Belge	29,488	+3
Soc. Gen. Belge.	3,460	+15
Sofina	12,850	+50
Solvay	8,006	+76
Stanwick Intl.	185	......
Tractionel	6,550	+50

GERMANY

Dec. 9	Price Dm.	+ or —
AEG	335.4	+1.4
Allianz Vers.	2,265	+5
BASF	275.1	+0.1
Bayer	316.5	+0.5
Bayer-Hypo	575	+0
Bayer-Verein	532	—2
BHF-Bank	546	—2
BMW	598	—1
Brown Boveri	297.5	—1.5
Commerzbank	312.5	......
Cont'l Gummi	355	+2
Daimler-Benz	1,250xr	—5
Degussa	470	+1
D'sche Babcock	209.5	+0.5
Deutsche Bank	831	+2
Dresdner Bank	410.5	—1.2
Feld-Muehle Nbl	287	—2
Henkel	485.5	—1.5
Hochtief	950	—20
Hoechst	068.2	+0.7
Hoesch Werke	125	—0.9
Holzmann (P)	516.5	+0.5
Horten	250.1	—1.8
Husael	650	+5
Karstadt	495	+4
Kaufhof	545	—1
KHD	165	—1
Kloeckner	68.5	......
Linde	764	—1
Lufthansa	183	+1
MAN	220	—5
Mannesmann	182.5	+1.0
Mercedes Hld.	1,096	—5
Metallgesell	310.0	......
Muench Rueck	2,475	—5
Nixdorf	738.5	+6.5
Porsche	1,075	+9
Preussag	176	—5

NORWAY

SPAIN

SWEDEN

AUSTRALIA (continued)

HONG KONG

JAPAN (continued)

SINGAPORE

SOUTH AFRICA

ITALY

FINLAND

FRANCE

NETHERLAND

SWITZERLAND

DENMARK

AUSTRALIA

JAPAN

NOTES — Prices on this page are as quoted on the individual exchanges and are last traded prices. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. * Price in Kroner.

CANADA

TORONTO

Closing prices December 9

MONTREAL

Closing prices December 9

Indices

NEW YORK

OVER-THE-COUNTER *Nasdaq national market, closing prices*

Continued from Page 49

NYSE-Consolidated 1500 Actives

	Stocks Traded	3.00p.m. Price	Change on Day		Stocks Traded	3.00p.m. Price	Change on Day
Pac Gas El	4,438,500 xd	24⅝	—1	Mighty Pwr	1,415,500 xd	48⅝	—1
Carter Haw	4,151,200	48⅝	+1⅛	Philip Mor	1,122,100 xd	74⅝	— ⅜
British Gas	4,022,700	8⅝	— ⅛	Chrysler	985,600 xd	38⅝	+ ⅜
Det Ed	1,863,400	18⅛	+ ⅛	Baxter Lab	917,800 xd	20⅛	+ ⅛
ATT	1,900,700	27⅛	— ⅛	IBM	854,100	127⅝	— ⅜

Advances 530 Declines 1,080

TOKYO — Most Active Stocks

Tues Dec 9 1986

LONDON Chief price changes (In pence unless otherwise indicated)

RISES

Ambr. Inv. Cap.	430	+14
Argyll Group	313	+ 8
Assoc. News	371	+15
Attwoods	222	+ 9
BAT Inds.	466	+ 6
Barclays	490	+12
Caffyns	238	+20
Chamber. & Hill	113	+ 8
Craton Lodge	105	+ 9
Glaxo	945	+22
Goring Kerr	270	+25
Jaguar	528	+ 8
Lloyds Bank	442	+14
Mitchell Somers	129	+ 6
Midland Bank	563	+15
NatWest Bank	500	+14
Norton Opax	125	+ 4
Nottingham Brick	290	+ 5
Ratners	261	+ 9
Redf. Natl. Class	325	+ 7
Rowntree Mack.	412	+12
Royal Ins.	853	+26
Saatchi & S.	720	+17
Smurfit (Jeff)	325	+15
Supra	91	+ 5
TACE	360	+20
Utd. Ceramic	113	+13

FALLS

Conroy Pet.	116	—14
Rustenburg Plat.	710	—27
Whitecroft	247	—13

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/ E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
26½	16¼	AAR s	.44	1.6	18	324	24⅝	24¼	24½	+¼
30	21¾	ADT	.92	2.5		1314	28¼	28⅛	28¼	+⅛
33	15¾	AFG s	.12i	.4	14	422	30½	29¼	29¼	−1⅛
29	18¾	AGS			18	209	28½	27¾	27⅞	−⅛
15	7⅛	AMCA				35	7⅛	7⅛	7⅛	
62⅞	28¼	AMR			13	4531	56⅞	55⅞	55⅞	−1
15¾	10	ARX	.71f	6.1	11	61	11⅞	11⅝	11⅝	
41½	28¾	ASA	2a	5.5		528	36⅛	36	36⅛	−⅝
16⅝	8¾	AVX		2.8		99	12⅞	12¼	12¼	−⅛
32	25¼	AZP	2.72	8.4	6	1315	28¼	28¼	28⅞	−¼
55	30½	AbtLb s	.64	1.7	22	2256	48⅞	48⅜	48¾	+⅛
32	24½	AccoWd .56		2.1	17	329	27⅛	26⅞	26⅞	+⅛
14⅞	6	AcmeC .40		3.8		27	10½	10¼	10½	
6¼	6⅛	AcmeE .32b		5.0	16	12	6⅜	6¼	6⅜	+⅛
23⅞	17½	AdaEx 4.45e		21.		156	21	20¾	20¾	−¼
33⅜	18⅝	AdmMl .48		1.7	13	24	28½	28	28⅛	−⅛
20⅝	12⅛	AdvSyst.45t		6.1	15	813	18	17⅛	18	+⅞
32⅞	12⅞	AMD				1444	15¾	15⅞	15⅛	−½
12⅝	5½	Adobe				108	6	5¾	5¾	−¼
18⅝	13¾	Adob pf	1.84	11.		31	16½	16¼	16¼	−¼
20¼	16⅜	Adob pf	2.40	14.		128	17⅞	17½	17¾	
18⅜	10½	Advest	.12a	.9	10	133	13½	13¼	13¼	
66¼	50¼	AetnLf	2.64	4.5	6	4941	59⅝	58	58¼	
54⅝	51⅛	AetL pf	3.94e	7.6		248	51⅞	51¾	51¼	−⅛
101½	87¼	AetL pfC	5.95e	6.8		225	89⅝	89¼	89½	+¾
71½	34⅞	AffPb s	.44	.6	34	300	71⅛	70⅝	70⅝	−⅛
28¾	14⅛	Ahmns	.46	2.1	7	2506	23	22¼	22⅜	−½
5¾	2⅞	Aileen			45	20	3¼	3⅛	3⅛	
41⅝	29⅛	AirPrd s	.80	2.1	469	1483	37⅞	37⅜	37½	−⅝
32	16	AirbFrt	.60	2.0	21	181	29½	28¼	28½	−⅛
20⅜	16½	Airlse n				281	18¾	18¼	18¼	−½
2	¼	AlMoanf.60c				113	7-16	13-32	13-32	
18¾	9⅛	AlaP dpf.87		8.8		19	10¼	10⅛	10⅛	
105½	84¼	AlaP pf	9	8.8		z400	102	102	102	−1½
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on Page 49

مكتبة من الأصل

NYSE COMPOSITE CLOSING PRICES

Continued from Page 48

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close	Ch'ge Prev. Close
27¾	17⅞	ZenithE				697	20⅝	20¼	20⅜	−½
18¾	6	ZenLb s			65	985	10¼	10	10	
22⅝	12⅝	Zero s	.28	1.5	18	213	15½	15	15	−¼
45¾	32¾	Zurnin 1.32		3.1	17	186	42⅞	41⅞	42	
10⅝	9⅛	Zweig n				373	9⅝	9⅛	9⅛	

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls — sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

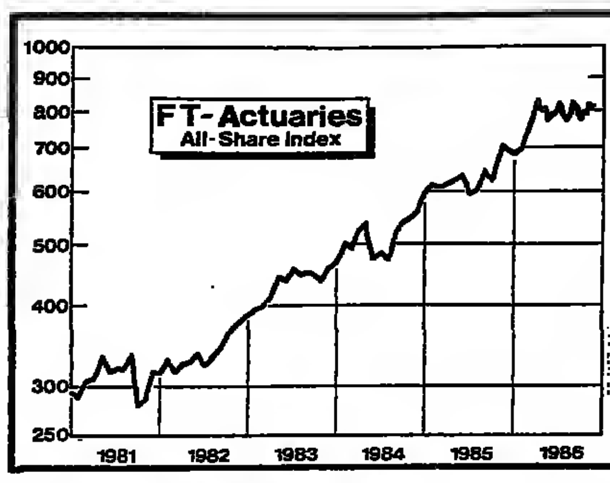
OVER-THE-COUNTER

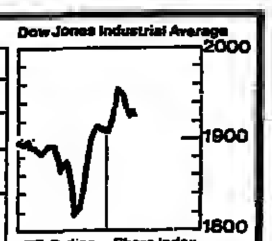
Nasdaq national market, closing prices

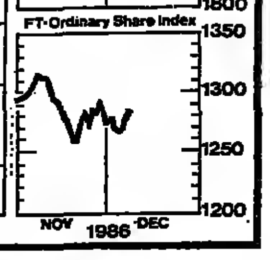
Continued on Page 47

FINANCIAL TIMES
WORLD STOCK MARKETS

KEY MARKET MONITORS







STOCK MARKET INDICES

	Dec 9	Previous	Year ago
NEW YORK			
DJ Industrials	1,916.90	1,930.26	1,497.02
DJ Transport	841.48	853.69	700.02
DJ Utilities	211.31	212.17	165.78
S&P Composite	249.28	251.46	204.25
LONDON			
FT Ord	1,284.4	1,275.5	1,115.7
FT-SE 100	1,635.9	1,623.4	1,392.2
FT-A All-share	816.87	812.06	668.65
FT-A 500	892.93	888.53	733.90
FT Gold mines	320.0	324.4	283.0
FT-A Long gilt	10.70	10.73	10.41
TOKYO			
Nikkei	16,602.7	16,710.68	12,798.2
Tokyo SE	1,547.13	1,554.19	1,010.83
AUSTRALIA			
All Ord.	1,440.3	1,427.9	985.9
Metals & Mins.	891.4	888.3	484.9
AUSTRIA			
Credit Aktien	235.76	—	230.82
BELGIUM			
Belgian SE	4,131.69	4,115.30	2,916.79
CANADA			
Toronto			
Metals & Minls	1,978.20	2,015.00	2,022.00
Composite	2,938.00	2,995.30	2,859.40
Montreal			
Portfolio	1,532.04	1,540.85	139.71
DENMARK			
SE	—	197.75	234.78
FRANCE			
CAC Gen	407.90	403.0	246.3
Ind. Tendance	162.10	158.80	92.0
WEST GERMANY			
FAZ-Aktien	684.62	683.61	585.42
Commerzbank	2,063.80	2,059.0	1,725.0
HONG KONG			
Hang Seng	2,440.35	2,431.29	1,724.27
ITALY			
Banca Comm.	673.76	c	435.73
NETHERLANDS			
ANP-CBS Gen	285.80	285.90	235.7
ANP-CBS Ind	284.70	285.40	218.3
NORWAY			
Oslo SE	356.83	362.81	382.81
SINGAPORE			
Straits Times	883.95	891.40	649.49
SOUTH AFRICA			
JSE Golds	—	1,675.0	1,145.8
JSE Industrials	—	1,376.0	1,036.3
SPAIN			
Madrid SE	198.36	c	98.53
SWEDEN			
J&P	2,429.18	2,431.55	1,611.79
SWITZERLAND			
Swiss Bank Ind	594.50	593.70	541.9
WORLD	Dec 9	Previous	Year ago
MS Capital Int'l	355.30	355.90	244.8

GOLD (per ounce)

	Dec 9	Prev
London	$387.00	$389.25
Zürich	$387.75	$389.75
Paris (fixing)	$388.31	$389.58
Luxembourg	$389.50	$391.25
New York (Feb)	$390.4	$392.20

INTEREST RATES

Euro-currencies (3-month offered rate)	Dec 9	Prev
£	11⅛	11⅛
SFr	4⅝	4⅝
DM	5⅛	5
FFr	9⅝	9⅝
FT London Interbank fixing (offered rate)		
3-month US$	6⅜	6⅝
6-month US$	6⅛	6⅛
US Fed Funds	5⅞ *	5⅝
US3-month CDs	5.80 *	5.975
US3-month T-bills	5.47 *	5.64

CURRENCIES

(London)	US DOLLAR Dec 9	Previous	STERLING Dec 9	Previous
£	—	—	1.4230	1.4205
DM	2.0190	2.0095	2.8725	2.855
Yen	162.60	162.35	231.25	230.5
FFr	6.6175	6.5825	9.415	9.35
SFr	1.6900	1.6785	2.405	2.385
Guilder	2.2825	2.2710	3.2475	3.225
Lira	1,399	1,393.5	1,991	1,979
BFr	42.05	41.85	59.85	59.45
C$	1.3775	1.3775	1.9585	1.9545

US BONDS

Treasury	December 9* Price	Yield	Prev Price	Yield
6⅜ 1988	100⅜	6.214	100⅜	6.215
7⅛ 1993	101⅝	6.924	101	6.936
7¼ 1996	101⅜	7.093	100⅞	7.124
7¼ 2016	101⅝	7.341	101⅛	7.382

Source: Harris Trust Savings Bank

Treasury Index Maturity (years)	Dec 9 Return Index	Day's change	Yield	Day's change
1–30	160.73	+0.03	6.84	+0.00
1–10	152.79	+0.06	6.53	−0.01
1– 3	142.35	+0.05	6.19	−0.01
3– 5	155.71	+0.09	6.61	−0.01
15–30	189.15	−0.10	7.84	+0.01

Source: Merrill Lynch

Corporate	December 9* Price	Yield	Prev Price	Yield
AT & T				
3⅞ July 1990	92.218	6.35	92.218	6.35
SCBT South Central				
10⅞ Jan 1993	106.375	9.499	106.50	9.473
Phibro-Sal				
8 April 1996	99.625	8.058	99.875	8.017
TRW				
8⅞ March 1996	103.75	8.926	103	8.275
Arco				
9⅜ March 2016	109.75	8.984	109	8.996
General Motors				
8⅛ April 2016	93	8.792	92	8.895
Citicorp				
9⅜ March 2016	100.625	9.310	99.375	9.441

Source: Salomon Brothers

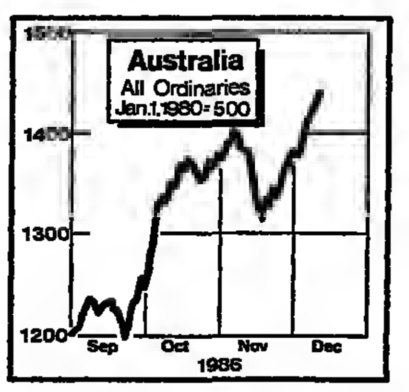
FINANCIAL FUTURES

CHICAGO	Latest	High	Low	Prev
US Treasury Bonds (CBT) 8% 32nds of 100%				
Dec	100-12	100-25	100-04	100-17
US Treasury Bills (IMM) $1m points of 100%				
Dec	94.56	94.60	94.55	94.59
Certificates of Deposit (IMM) $1m points of 100%				
Sept	—	—	—	—
LONDON				
Three-month Eurodollar $1m points of 100%				
Dec	93.89	93.91	93.88	93.89
20-year Notional Gilt £50,000 32nds of 100%				
Dec	108-09	108-06	108-00	107-12

* Latest available figures

COMMODITIES

(London)	Dec 9	Prev
Silver (spot fixing)	375.75p	377.95p
Copper (cash)	£931.50	£942.00
Coffee (January)	£1,977.50	£1,997.50
Oil (Brent blend)	$14.625	$14.70



WALL STREET

Prices drift downwards in dull trading

LACKING any fresh news to give them direction, Wall Street stock and bond market drifted in light trading yesterday, *writes Roderick Oram in New York.*

The Dow Jones industrial average lost 13.36 points to close at 1,916.90 although it was only a few points down on the day until late in the session. The Dow Jones Transportation index was also hit, falling 12.21 points to 841.48.

The New York Stock Exchange composite index slipped 1.02 points to 142.57 on volume of 128.7m shares with declining issues outpacing rising by a margin of two-to-one. It was the second quietest session in a month with institutional buyers largely absent.

The market's downward trend since setting a record last Tuesday is beginning to make some analysts question whether the Dow can break forcefully through the 2,000 level by the end of the year.

Among blue chips yesterday, Allied-Signal was off $¾ to $42½, Anheuser Busch slipped $⅛ to $27, Citicorp fell$1⅛ to $53, General Electric lost $1¼ to $86½, IBM dropped $⅞ to $127⅞, Mobil was unchanged at $38¾ and Sears Roebuck lost $⅝ to $42⅝.

Deere fell $½ to $23¾ after reporting a $139.7m loss for the fourth quarter from operations reflecting the severely depressed farm equipment market.

United Technologies rose $⅜ to $45⅝. It announced a $592m restructuring writeoff in the fourth quarter which would result in a "substantial loss" for the period American Motors was unchanged at $3¼ after forecasting "a modest loss" for 1987.

Panhandle Eastern, a natural gas pipeline operator, eased down $⅛ to $27⅞. It is planning to make a $50m-$55m charge in the fourth quarter.

In sharp contrast, Firestone Tire and Rubber reported fourth quarter earnings of 64 cents a share against 5 cents. It share price slipped $⅜ to $27¼.

Goodyear Tire and Rubber, down $⅛ to $42¾, said it had arranged $4bn credit line which will help its recapitalisation prompted by the aborted takeover offer from an investor group led by Sir James Goldsmith.

On the takeover front, General Cinema, up $½ to $45½, raised its stake in Carter Hawley Hale to 49.1 per cent from the equivalent of 38.6 per cent. The stores group has put a 50.1 per cent cap on General Cinema's holding.

Carter Hawley gained $1 to $48½ on heavy volume of more than 4.3m shares. The Limited and Mr Edward DeBartolo dropped their takeover offer on Monday after Carter Hawley said it was splitting its stores operations into two publicly traded companies to the financial benefit of existing shareholders.

BankAmerica advanced $⅜ to $15 following news that First Interstate Bancorp., unchanged at $54¼, had applied to regulatory authorities to pursue its hostile $22 a share bid for the troubled West coast bank group.

Joy Manufacturing slipped $½ to $31¼. It filed suit trying to block the takeover offer bid by Pullman-Peabody which gained $¼ to $7⅞.

Lockheed, the aerospace group subjected recently to intense speculation that it was about to be taken over, adopted a shareholders' rights plan to frustrate any raid. Its shares fell $1¾ to $51¾.

British Gas was actively traded on its second day with 4.27m American Depository Receipts each representing 10 partly-paid shares changing hands. The price slipped $¼ to $8⅞.

Trading in the credit markets was light and featureless in the absence of any economic news. Despite marginally positive factors such as lower gold and oil prices, a firmer dollar and a Fed funds rate below 6 per cent prices of government securities slipped.

The price of the 7.50 per cent benchmark Treasury long bond eased down $^5/_{32}$ of a point to 102½₂ at which it yielded 7.33 per cent. Three-month Treasury bills slipped one basis point to 5.48 per cent while six-month and year bills were unchanged at 5.48 per cent and 5.50 per cent respectively.

DUBLIN STOCK MARKET

Foreign flavour features in record run

THE RECENT surge in the Irish equities market, which has sealed a year of impressive performance, was sustained yesterday by strong trading which saw a two-week trend of daily record highs continue, *writes Hugh Carnegy in Dublin.*

There has also been heavy activity in recent days in Irish gilts, which account for more than 90 per cent of turnover in the Dublin market, bringing long-term yields down from over 13 per cent to 12.5 per cent.

Broker J. & E. Davy's Equities index stood at 584.17 at lunchtime, up 4.75 on Monday. It has gained 50 per cent this year.

Prominent yesterday again was Jefferson Smurfit, the Irish packaging and paper maker, the bulk of whose business is now in the US. It was up 16 Irish pence to 340 Irish pence.

A feature of the strong performance in Dublin, which is a regional unit of the London Stock Exchange, has been the strength of a handful of leading companies which, like Smurfit, have achieved big profit growth overseas and no longer depend on the weak local economy. Currency movements have mainly favoured them this year.

These include Waterford Glass, which when its takeover of Wedgwood, the English bone china group, is complete will account for nearly 15 per cent of the total Irish market capitalisation; Cement-Roadstone and Allied Irish Banks. Together with the Bank of Ireland, these companies make up more than 60 per cent of the present total market capitalisation of I£3.5bn ($4.7bn), based on 48 companies excluding USM and oil companies.

Brokers say the overseas performance and prospects of these and other companies increasingly looking to expand abroad – such as star USM performer FII (Fruit Importers of Ireland) – has prompted a reappraisal of equities by domestic investors. More than I£300m has been raised on the Irish market this year, they say.

Another factor behind the trend has been the outstripping of supply by demand. Exchange controls limiting Irish buying of foreign stocks fuels local demand but the punitive Irish tax regime curbs the shifting of shares.

In the gilts market, which has grown sharply in recent years on the back of the Government's need to fund burgeoning public deficits, there has been a resurgence in demand after difficulties earlier this year when a liquidity squeeze, prompted by sterling's weakness and worries about the state's ability to meet its borrowing requirements, pushed up interest rates.

TOKYO

Utilities run out of steam

UTILITIES and some blue chips opened higher in Tokyo, but buying interest waned rapidly in the afternoon, steeply pushing down share prices across the board, *writes Shigeo Nishiwaki of Jiji Press.*

Tokyo Gas failed to reach a record high as expected, and instead came under heavy selling pressure, which dampened the market.

The Nikkei stock average fell 107.96 to close at 16,602.72 on a volume totalling 844m shares, up from Monday's 709m. Trading amounted to 560m shares in the morning alone. Losses led gains 506 to 315, with 165 issues unchanged.

Many low-priced large-capital issues were active. Kawasaki Steel, the busiest with 67.41m shares changing hands, remained unchanged at Y206, while Nippon Kokan, which was placed second with 75.55m edged up Y1 to Y267. Trading in Tokyo Gas shares came to 65.54m shares, third heaviest for the day.

Investors had been awaiting a new high by Tokyo Gas. But after rising Y40 in the morning to match the record of Y1,230 set on October 1, the issue was hit by heavy selling and closed Y20 lower at Y1,170. The unexpectedly large selling dampened investor sentiment and heralded a downturn in prices.

Tokyo Electric Power rose Y60 to a record Y6,530, at one stage. But caution spread because the issue had been rising without pause since hitting a low of Y5,800 on October 25, and the stock finished Y130 lower at Y8,340.

Instead, investors increased buying of other power stocks priced lower than the market leader. Kansai Electric Power added Y30 to Y4,100 and Chubu Electric Power Y100 to Y4,200.

Matsushita Electric Industrial opened Y30 higher, but was sold later as the market mood deteriorated to finish at Y2,090, off Y10. Fujitsu fell Y20 to Y1,220.

Large-capital chemicals turned down, with Sumitomo Chemical losing Y15 to Y412 and Showa Denko Y5 to Y387.

Mirroring the firm US bond prices, dealers actively bought government bonds. The yield on the 5.1 per cent government bond tumbled from Monday's 5.290 per cent to 5.250 per cent in the morning. But the rumours of a tight money policy apparently had a big impact on dealers, sharply boosting selling.

The yield shot up to 5.295 per cent, but later traded at 5.275 per cent.

CANADA

A FURTHER broad retreat was seen in active Toronto trading as most major share groups weakened in line with Wall Street. The downward trend was helped by industrials. Bell Canada fell C$⅛ to trade at C$37, Canadian Pacific slipped C$⅜ to C$17 and Campeau lost C$¼ to C$24.

Precious metals turned lower and metals and mines joined the retreat.

Montreal was also lower.

AUSTRALIA

SENTIMENT WAS boosted in Sydney by speculation of another takeover bid for BHP and the market reached its fourth consecutive record. The All Ordinaries index gained 16.4 to 2,304.6.

BHP rose 20 cents to A$6.80 after Bell Resources said it would underwrite the placement of Equiticorp Tasman's 5 per cent stake in BHP. This was interpreted as signalling another bid attempt on BHP soon. Bell Resources held steady at A$4.15. Equiticorp Tasman rose 5 cents to A$1.60. Bell Resources parent, Bell Group gained 10 cents to A$8.80.

News Corps proposed takeover of the Herald and Weekly Times was overshadowed by the BHP development and trading in media issues thinned. News Corp eased 10 cents to A$17.70. HWT dropped 5 cents to A$12.75.

LONDON

CONTINUED ACTIVITY in recent issue British Gas and rumours of possible cuts in global interest rates helped London stage a further advance. Equities closed near the day's highs but gains in gilts were trimmed as sterling failed to follow through on a initial advance. The FT Ordinary index closed 6.9 higher at 1,284.4 while the FT-SE 100 index gained 12.5 to 1,635.9.

Turnover in British Gas again headed the actives list at 306m and the issue closed 1p lower at 61½p. The rest of the oil and gas sector traded quietly ahead of Thursday's Opec meeting.

Chief price changes, Page 47; Details, Page 46, Share information service, Page 44, 46.

SINGAPORE

MOST INVESTORS chose to stay on the sidelines in Singapore where the market closed lower after a session marked by very quiet trading. The Straits Times industrial index fell 7.45 to 883.95.

Falls were seen across a broad front with a number of blue chip issues registering the heaviest losses. Malaysian issues were particularly weak.

DBS dropped 15 cents to S$8.95 while Genting slipped 10 cents to S$6.05. Inchcape was 6 cents cheaper at S$2.81.

HONG KONG

SELECTIVE DEMAND from overseas institutions and local investors took Hong Kong higher and the Hang Seng index gained 9.06 to 2,440.35.

China Gas, a favourite after its announcement that its customers will be paying 9 per cent more next year, rose 40 cents to HK$19.40. Hk Land put on 5 cents to HK$6.35 while Sun Hung Kai Properties rose 20 cents to HK$18.50.

Swire Pacific A advanced 20 cents to HK$19.

SOUTH AFRICA

GOLD SHARES were easier in moderate Johannesburg trading, while industrials were mixed with an easier bias. Vaal Reefs fell R2.50 to R355.50 while Harties dropped 50 cents to R49.75. In mining financials Gencor eased R1 to R54.50.

Platinums were mixed. Impala gained 50 cents to R49.75 while Rustenberg dropped R1.25 to R45.00.

EUROPE

French give push to peak in Brussels

FOREIGN INSTITUTIONAL support boosted Brussels to its second consecutive peak although volume slipped back from Monday's level.

Domestic buyers, encouraged by the new tax investment scheme, continued to be heavy buyers while foreign, notably French institutions, entered the market. The Belgian Stock Exchange index rose 16.39 to 4,131.69.

Utilities, some holding groups and chemicals were in the spotlight again, with market bellwether Petrofina firming BFr 50 to BFr 9.920.

GBL continued to lose ground in the wake of US investigations into affiliate Drexel Burnham Lambert. GBL lost BFr 50 to BFr 3,660.

Among stronger, chemical stocks Solvay jumped BFr 70 to BFr 8,990 and UCB closed BFr 230 higher at BFr 9,300.

Utility Ebes put on BFr 80 to BFr 5,050 while Tractebel finished BFr 50 stronger at BFr 6,550.

The rate of interest on three-month Treasury certificates edged 5 basis points higher to 7.40 per cent.

Milan encountered heavy selling pressure after a market holiday on Monday. Heavy foreign selling pushed prices down across the board with many issues losing further ground in after bourse trading.

Insurers and industrials suffered the sharpest falls.

Generali lost L3,900 to L123,600 while Ras dropped L2,520 to L52,500. Toro at L29,000 was L1,600 down.

Fiat dropped L445 to L13,250 and Montedison dropped L110 to L2,860 on plans to increase its stake in insurer Fondiaria to 40.5 per cent.

Frankfurt turned mixed in pre-Christmas lethargy.

The Commerzbank index at 2,063.6 posted a modest 4.6 gain.

Deutsche Bank stood out among weaker banks with its DM 2 rise to DM 831 while AEG among electricals was bought DM 1.40 to DM 335.40. Siemens eased 50 pfg to DM 754.50.

Daimler proved the weakest among the car makers with its DM 6 drop to DM 1,258 while BMW, which announced extra shift working to produce its new model, slipped DM 1 to DM 598.

Stockholm remained inhibited by interest rate concerns and closed slightly higher.

Paris regained its composure after the climbdown by the Government on its proposed university legislation. Foods performed well due to the stronger dollar. Moët-Hennessy firmed FFr 109 to FFr 2,589 while Perrier picked up FFr 29 to FFr 612.

Zurich closed higher with some profit-taking in blue chips offset by buoyant demand.

Amsterdam suffered mixed trading in thin volume while **Madrid** dropped sharply as constructions lost ground. **Oslo** also sustained a sharp drop in moderate volume.

SECTION III

FINANCIAL TIMES SURVEY

Switzerland

BANKING, FINANCE AND INVESTMENT

Swiss financial markets are adapting, in their customary quiet style, to changes sweeping through the international field

Maintaining a key role

By William Dullforce, *Geneva Correspondent*

THE SWISS, as everyone knows are evolutionists not revolutionaries and nothing like London's Big Bang has happened or is likely to occur in Switzerland. But strong mutations in the body of Swiss banking have become apparent, increasingly so this year, as they react to the deregulation abroad and to the emergence of global financial markets.

One reaction stems from the determination of the three big banks — Union Bank of Switzerland (UBS), Swiss Bank Corporation (SBC) and Credit Suisse — to remain key players on the world banking scene. This year, having previously built up their operations in London and New York, they implanted themselves more firmly in Tokyo and Frankfurt.

SBC and Crédit Suisse are making sweeping (by Swiss standards) changes at top management level, evoking the need to spread decision-making among managers as their operations expand and to co-ordinate better the securities business, where earnings have been growing fastest, with the commercial banking side.

But in 1986 it is not only the adaptations within the big banks that have struck the eye. There has been something like a biological shift throughout the Swiss financial body, transmuting relationships between the banks and the regulating bodies and stirring change in institutions such as the stock exchanges.

By finally deciding after several years of deliberations not to amend the Banking Act, the Federal Council (government) has opened the way for a reshuffling of responsibilities. The banks have to organise their own self-regulating processes or to negotiate rules with the Federal Banking Commission, whose role is becoming more important, and with the Swiss National Bank (SNB).

The SNB has been stimulating change by pursuing a liberal, market-orientated policy that has led it to abandon or ease its few remaining regulations and by refusing to continue supervisory tasks that its present leaders consider to go beyond its statutory function of conducting monetary policy.

In May, it removed the last restrictions on issues of medium term notes. By virtually abolishing the distinction between the notes and public bond issues, it has forced the banks to decide on new techniques for issuing notes and to face up to the requirement that investors be provided with better information about borrowers through properly detailed prospectuses.

In October, after preparing the ground in earlier public statements Mr Pierre Languetin, the president, confirmed that the SNB would withdraw 12 months later from the *convention de diligence*, the gentleman's agreement which it signed with the banks in 1977 in the immediate aftermath of the scandal over Crédit Suisse's Chiasso branch.

This branch had been busily amassing deposits from abroad without worrying about their origin. Under the convention with the SNB the banks undertook not to assist illegal capital exports from other countries and to check carefully the ownership of the funds placed with them without offending against the Banking Act's stipulation that disclosure of information about bank clients is a criminal offence punishable by a prison sentence and fines.

The convention became Switzerland's moral shield against charges that its renowned bank secrecy made it a haven for criminally acquired monies.

Argument on precisely this point has been stirred up again this year both abroad and at home by the hunt for the billions of dollars Mr Ferdinand Marcos, the ousted Philippines president, is reported to have concealed abroad.

An order from the Federal Council to the banks to block Marcos assets held in Switzerland aroused considerable controversy. The Council moved when it learnt that an attempt could be made to withdraw funds before the new Philippines Government had applied for legal assistance in prosecuting the former president and in recovering allegedly plundered money.

Without disputing the moral basis for the Council's action, the bankers feared its effect on foreign investors' confidence in Swiss bank secrecy and saw it as establishing a dangerous precedent.

It undoubtedly revealed a vacuum in Swiss legal provisions for handling cases in which a foreigner ostensibly validly elected to political office in his country and doing business with Swiss banks is expelled from office and may face prosecution by his country's new rulers. The bankers claim that it has not shaken the bedrock of discretion which they offer their clients.

Mr Languetin, however, pointed out that the Marcos case had exposed a weakness in the *convention de diligence*: it does not guarantee that the true owners of funds can be identified, if the funds have been placed through lawyers or fiduciary agents.

Now the Bankers' Association, the Banking Commission and organs representing the lawyers and trustees are negotiating a new system for policing banks' deposit-taking and fund-managing activities.

Another governing body, in which the SNB has an interest and which is under re-examination, is the stock exchange admissions board. In this case pressure for change has come from the foreign banks as well.

The complaint is that the nine-member board set up in the 1930s under an agreement with the SNB is too strongly influenced by the bond-issuing syndicate run by the big banks and is too conservative in judging securities for listing on the Swiss exchanges.

Mr Markus Lusser, the SNB vice-president, has charged that the board's listing procedure has not kept pace with the deregulation of the Swiss capital markets set going by the SNB. For some people a fundamental question of Swiss banking philosophy is at stake: should Swiss banks as the world's money managers sell any kind of junk bond or offer bonds as safe investments?

A working group from the SNB, the stock exchange committees and the finance ministry is looking into the admissions board. Essentially it has to decide between the liberal view taken by younger issuing banks such as Soditic that any security can be issued and listed, provided adequate information is available to allow investors to make their own judgments, and the traditional standpoint that the quality of paper traded over the Swiss exchanges must be impeccable and the Swiss capital market accessible only to first-class borrowers.

Other forces, too, are combining to shake the Swiss bourses out of their stuffy old moulds. Institutional and foreign investors want more efficient trading and more instruments to trade in. Continuous trading in Swiss blue-chip stocks was started this year, opportunities for forward trading have been increased, a computer-assisted trading system for bonds is being installed and a bourse for shares options is promised for

CONTINUED ON PAGE 10

C & V Blatt (Geneva)

Ready for stirring changes: trading floor of the new bourse in Geneva, designed by architects H. & E. Werner of Zurich

Capitalisation of Swiss Banks

(SFr m at end of the year)	Big Five* 1983	Big Five* 1984	Big Five* 1985	All banks 1983	All banks 1984	All banks 1985
Paid-up equity	6,108	6,706	7,708	15,660	17,224	18,455
Capital callable from shareholders of co-operative banks	—	—	—	1,162	1,237	1,314
Local authority guarantees to district savings banks	—	—	—	94	101	106
Open reserves	11,469	12,918	15,582	20,401	22,605	26,134
Latent reserves†	3,981	4,319	4,754	6,027	6,744	7,521
Subordinate debt	1,873	2,314	2,758	3,227	2,624	3,250
Undistributed profits	41	46	54	226	208	335
Total capitalisation	23,472	26,203	30,856	45,998	50,743	57,615
Stipulated minimum capital	21,893	24,870	27,823	38,789	43,111	47,297

* Bank Leu, Credit Suisse, Swiss Bank Corporation, Swiss Volksbank, Union Bank of Switzerland.
† Reserves disclosed to tax authorities but not published by individual banks; they do not include undisclosed hidden reserves.
Source: Swiss National Bank.

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The Swiss Bank Corporation in Berne

Commercial Banks

Into another bumper year

EARLY THIS year the Swiss commercial banks were doubtful whether they would be able to keep up their remarkable profits growth. Despite extremely conservative accounting practice, net earnings had doubled between 1979 and 1985, rising from year to year not only in their overall total but also on a per-employee basis. After last year's jump of some 18 per cent, the banks felt they might be approaching a ceiling.

If there is such a ceiling, it will certainly not be reached in 1986. Although Swiss banks do not publish interim profit-and-loss accounts, many of them have already said earnings will again be higher. The use of key phrases like "gratifying results," "considerable increases" and "substantial growth" indicates that the rise will be of much more than just a few per cent.

The current second half will probably not see quite the same upswing relative to the same period in 1985 as the January-June period. Each of the big three—Union Bank of Switzerland, Swiss Bank Corporation and Crédit Suisse—has recently drawn attention to a deceleration in the third quarter, due to a combination of narrower interest margins, a weak dollar and rather less expensive securities business. A noticeable rise in annual profits seems, nevertheless, certain.

The big banks are not alone in expecting another bumper year. The Association of Foreign Banks in Switzerland reckons on "favourable results again" and a spokesman for the cantonal banks reports the same general trend. The nature of their core activities in the financial-services sector indicates that private banks continue to flourish; the same certainly goes for such ex-private banks as Julius Baer and Vontobel.

As far as actual balance-sheet totals are concerned, growth has been only slight this year so far. The Swiss National Bank reports a rise of only some 1.8 per cent over the first eight months. This reflects to a large extent, however, the simultaneous fall of the dollar in Swiss-franc terms by almost exactly 20 per cent.

It also indicates that Swiss bankers are not particularly keen to expand their balance sheets these days, anyway. This is less a matter of the country's stringent capital-ratio regulations—at the end of last year Swiss banks' capital resources amounted to SFr 57.6bn, or 123 per cent of the overall statutory requirement—than a question of the generally more lucrative nature of commission-based business.

This does not mean anything approaching an exodus of Swiss bankers from the interest sector. Both clients' deposits and the total for loans and advances to clients showed a slight increase in the first eight months, despite the exchange-rate situation, and are currently running at something like SFr 490bn and SFr 400bn, respectively, for a total of 388 reporting banks. Interbank business has grown rather faster.

Given the substantial credit and deposit needs of the flourishing Swiss economy and the world at large, banks have no intention of getting out of these activities. Nevertheless, today's interest margins are hardly attractive and could well become even less enticing, at least in Switzerland itself. Also, Switzerland is close to saturation in the retail-banking sector, while the banks have no desire to set up in this field of operations abroad.

Over the years, Swiss banks have kept their reputation as conservative lenders. With a much smaller exposure in problem countries than their counterparts in the US, Germany or the UK, they are correspondingly less threatened by national defaults. Despite this, banks continue to build up bad-debt provisions. In 1985 the Big Three alone booked "losses, depreciation and provisions" totalling more than SFr 1.8bn, a rise of 22.5 per cent on the previous year, the vast majority of this being accounted for by precautionary provisions.

What this means is illustrated by the case of Crédit Suisse, which in the period 1980-85 put some SFr 2.1bn on the side for these purposes—as compared with its entire share capital of SFr 1.6bn; the aim, says the management, has been to "shield the bank and its shareholders as far as possible from the risks of today's world." The watchdog Swiss Banking Commission, which has hastened this trend by demanding 20 per cent value adjustments for commitments in problem countries, this year indicated it might increase this minimum further. Risks are by no means limited to foreign exposure either.

The banks—particularly the big banks and the cantonal institutes—are considered to have a duty to support the structure of the Swiss economy in times of need. The result: in the period from the start of 1976 to the end of last September, UBS alone contributed some SFr 590m to support ailing Swiss companies.

While interest income is running at about normal and acceptable levels, banks have experienced a marked rise in their non-interest activities. An important factor here has been the boom on the capital market. As universal banks, Swiss institutes act not only as investors but also as issuing houses and stockbrokers.

This means they have benefited from the record volume of new issues on the public capital market, with a new-money total of over SFr 31.2bn in the first three-quarters of 1986 alone, and from the high level of listed prices. (The Swiss Bank Corporation share index reached an all-time high at the start of this year and is not far off this peak today.) At the same time, incidentally, the banks have themselves profited from keen stock-market demand in that almost one-half of all domestic bonds and nearly one-third of all new share issues this year so far have been by the banks themselves.

Lively business in the securities sector, together with a further improvement in foreign-exchange trading profits and a recovery in precious-metal dealing in the wake of the higher gold price, will probably play a decisive role in bringing about the expected record results in 1986. The further development of such off-balance-sheet operations seem likely to set the scene for next year, too.

This presupposes expansion in two fields in particular. One of them is that of additional bourse activities at home. With Geneva and Basle having opened new Stock Exchanges this year and Zurich modernising as best it can before its move in 1991, the stockbroking banks are having to up-grade their services almost by the week. With futures and traded options around the corner, quite apart from the massive volumes attained this year in conventional share and bond trading, a lot of money is having to go into new facilities. Fortunately, record gross-earnings totals mean that investments here and on the retail side of electronic banking can be made without too much pain. Also, stock-broking banks benefit from such co-operative ventures as their Telekurs data service. Indeed problems will probably be more on the personnel side than in technology as such.

At the same time, the Swiss banks are going to have to keep expanding abroad. As important as such fee-based business as fiduciary accounts, portfolio management, currency and metal trading and securities operations are—and will remain—in Switzerland, banks realise the imperative need to consolidate their already strong positions in foreign financial centres. This means particularly growth in post-Big Bang London, in New York and to an increasing extent in Tokyo and German cities.

Growth abroad should not mean much increase in the foreign share of Swiss banks' balance sheets — traditionally about 40 per cent of assets and 30 per cent of liabilities, with much higher shares for big banks and foreign banks — since it will be concentrated on fee-based financial services. But the overall foreign stake seems certain to increase, weak dollar or no. All the major institutes seem to have corresponding plans.

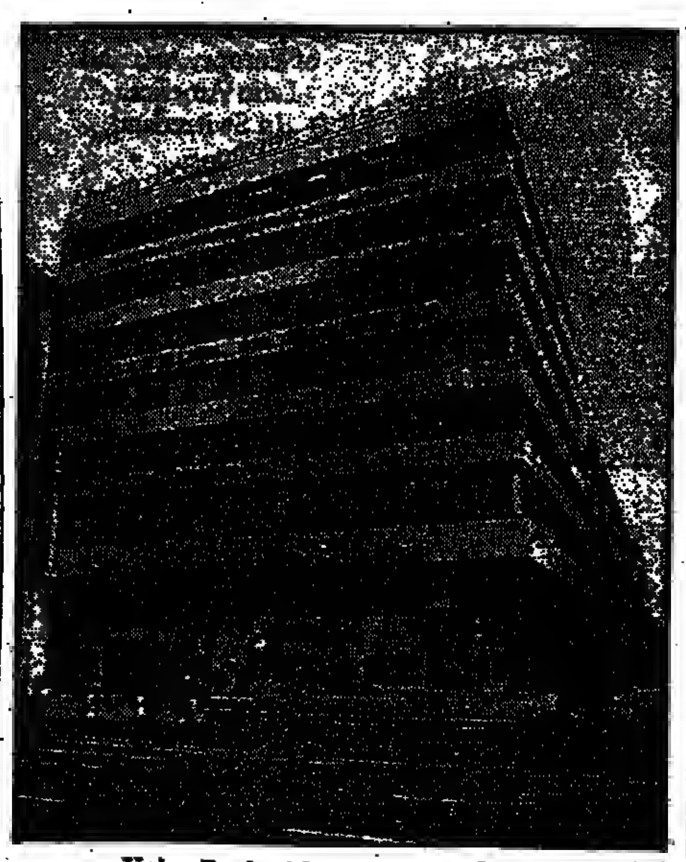
Internal growth and acquisitions will call for large sums of money — but Swiss bankers are hardly short of funds. Already, initial forecasts are assuming a further growth of net earnings in 1987. In mid-November, UBS published a study which puts the big banks' net profits for next year at some 5 to 10 per cent higher than those for 1986 — when the report claims their earnings will already have risen by something in the region of 15 per cent.

John Wicks

The big five banks

(Figures in SFr bn)

	Union Bank of Switzerland		Swiss Bank Corporation		Credit Suisse		Swiss Volksbank		Bank Leu	
	30.9.86	30.9.85	30.9.86	30.9.85	30.9.86	30.9.85	30.9.86	30.9.85	30.9.86	30.9.85
Balance sheet total	146.34	134.54	133.88	123.55	96.14	86.03	28.23	24.80	14.23	12.70
of which: Loans and advances to clients	64.88	60.43	58.22	55.28	42.31	40.15	19.22	17.63	4.33	3.70
Due from banks	47.10	41.60	42.22	35.72	25.77	21.72	4.67	3.40	6.20	4.63
Clients' deposits	81.42	80.52	89.45	82.98	58.86	57.31	22.42	20.03	7.27	6.34
Due to banks	43.27	34.91	27.04	25.68	26.09	18.32	3.11	2.52	4.94	4.70



Union Bank of Switzerland in Geneva

Secrecy Laws

Stormy times buffet the safe haven

SWISS BANKING secrecy has been scorched by the glare of international publicity this year. The Marcos case erupted in March, the Duvalier funds were frozen in April, and in May came the disclosure of the deal made by Bank Leu of Zurich with the US Securities and Exchange Commission (SEC) after its Bahamas subsidiary had been implicated in the insider-trading scandal involving Dennis Levine the Wall Street banker.

Foreign comment was almost unanimous: the legend of Switzerland as the impenetrably safe haven for foreign monies had been finally punctured. Previous SEC successes in extracting evidence from Switzerland that led to settlements in the Santa Fe International insider-trading case and the Marc Rich tax case were recalled. Swiss secrecy regulations were proving to be as full of holes as a piece of Emmental cheese, it was said.

Even Swiss bankers voiced publicly their concern that foreign investors' confidence could have been eroded by the Federal government's precipitate action in ordering the banks to block assets held in the name of Mr Ferdinand Marcos, the ousted Philippines president, before the incoming Aquino administration had asked for such action.

Now, however, the lawyers for the new regimes in Manila and Port-au-Prince who are trying to recover the monies stashed away in Switzerland by Marcos and former Haitian dictator Jean-Claude Duvalier have become embroiled in a seemingly interminable legal process, and the bankers are reassuring their clients and reconstructing the image.

Their message is that the core of Swiss banking secrecy remains intact. In Switzerland bankers can still be punished by fines and prison sentences for disclosing wilfully or negligently information about a client's affairs. According to the Banking Act the customer remains the "master of the secret" and he alone, under all but exceptional circumstances, can waive that right.

Magistrates can order banks to release information about customers' business only in cases involving bankruptcy or an offence which is covered by the Swiss criminal law. Tax evasion is not a criminal offence, unless it involves forgery or organised crime, and since Switzerland has no currency restrictions foreign governments need look for no help in prosecuting offenders against their exchange controls.

Contacts with clients are still conducted discreetly. Not only can e foreign customer hava a numbered account, to which his name can be connected only by one or two senior managers, the bank will also ensure that he receives no correspondence or accounts in an envelope carrying a Swiss stamp.

Resistance to further attrition of Swiss bank secrecy is firmly entrenched in the electorate and is based on both strictly pragmatic grounds and moral argument. Two years ago a large majority of voters turned down in a referendum proposals for radical amendments to the law governing secrecy.

An individual's right to conduct his business in privacy without the interference of public authorities is still approved in Switzerland.

For all that, Swiss bank secrecy is not what it used to be. One has only to compare the relative compliance of the Federal Government in easing the way for the new Philippines Government to recover the Marcos funds with the unyielding attitude it took not so long ago to similar efforts by tha Khomeini regime to lay its hands on the Swiss-based assets of the late Shah of Iran.

The scope of bank secrecy has narrowed. Insider trading — or the use of privileged information not available to the public to profit from trading in securities — has not been an offence in Switzerland. A Bill which would punish insider trading with up to three years in prison and fines is now on its way through parliament. It has already been passed by the Upper House.

Coupled with the International Mutual Assistance Act, which came into force in 1983 and provides for the exchange of legal information with other countries under clearly stipulated rules, tha new insider trading law should enable the US Securites and Exchange Commission, for instance, to obtain much more quickly the evidence it might need to prosecute offenders operating on US securities markets by way of Swiss banks or companies.

US pressure has been — and still is—resented as an ettempt to ride roughshod over Swiss law and as an infringement of Swiss sovereignty, but it has been the most potent factor in changing Swiss practices. Mr Hans-Peter Scheed, Bank Leu's legal adviser, said openly thet it had coma to terms with the SEC in the Levine case because it feared action by US courts against its New York hranch.

Swiss banks' drive to establish themselves more strongly in key centres such as New York, London and Tokyo, in order to secure their future profitability and their capacity to compete on a global market, has made Swiss bank secrecy more vulnerable to threats and pressures from foreign regulators.

Confusion about responsibilities has also been created domestically by the new laws and amended regulations. Thus, the Government's fumbling in the Marcos case was due partly to a contested political appraisal and partly to uncertainty about how the mutual assistance law should be applied.

In order to trace and freeze suspected plundered funds held in its banks, Switzerland needed a formal indication from the new Philippines Government that it intended to prosecute the former president and a request for legal assistance.

Manila was tardy; big Swiss bank got wind that some Marcos funds were about to be withdrawn and warned the Federal Council. Influenced possibly by critical foreign reactions to the Swiss electorate's vote to stay outside the UN, the Government argued that Switzerland would be internationally censured if it allowed Marcos assets to escape.

A day later it passed the buck to the Federal Banking Commission which was instructed to ask the banks to report whether or not they held Marcos assets. Oddly enough, the body that goes into action, once a foreign application for legal assistance has been received and approved, is the Federal Office of Police, a misnomer for what is essentially a bunch of government lawyers not policemen.

Some bankers believe the Government set an awkward precedent by ordering the banks to freeze the Marcos assets. For its part the Banking Commission denies that it is responsible for acting when a request for legal assistance may be anticipated and there is a risk of funds being moved. It would be legally dubious for a bank to block monies on its own volition. A gap in procedure clearly exists.

Another gap in the credibility of Swiss bank secrecy has been opened by the National Bank's decision no longer to act as guarantor and umpire for the *convention de diligence*, the gentleman's agreement under which the banks undertake to monitor the ownership of the funds placed with them, in order to prevent dirty money from abroad finding its way into the Swiss haven.

A suggestion that the obligation to identify the "beneficial owners" of funds should be incorporated in the Banking Act has been dropped. The Bankers' Association is trying to put together a body of sufficient deterrent authority from its own ranks to restore credibility to the *convention*.

An associate cause on which the National Bank has been campaigning and which also exposes a weakness in the *convention* concerns the role of lawyers and fiduciery agents. Under their own commitment to professional secrecy the lawyers can handle clients' funds and place them with the banks without disclosing the clients' names. They have to declare that they know their clients personally and give assurances that the transactions they are initiating do not abuse bank secrecy.

This practice provides an unsatisfactory shield for the reputation of Swiss banking, the National Bank feels. However, consistent with the argument that it is not a supervisory body which it used to explain its withdrawal from the *convention*, the Bank has left this particular problem to the Banking Commission to sort out.

If the bankers assert truly that the core bank secrecy and its value to foreign investors remain unshaken, substantial mutations are also visible under the influence of new foreign laws, the globalisation of banking and eveo the new financial instruments. The shape of Swiss bank secrecy is being remoulded.

William Dullforce

Former Haitian dictator Jean-Claude Duvalier (left) and the ousted Philippines president Ferdinand Marcos: concern that foreign investors confidence could have been eroded by action to recover monies placed in Swiss accounts

Profile/Claude de Saussure

In the bankers' chair

MONEY MAY be their livelihood but very few bankers walk around with pictures of their ancestors on the banknotes in their pocketbooks. The Swiss franc 20 note carries the portrait of Horace-Bénédict de Saussure, depicting on the reverse side the scientific expedition which climbed Mont Blanc in 1788 under his command.

Horace-Bénédict's descendant, Claude de Saussure, has just taken over as chairman of the Swiss Bankers' Association. At the age of 66 he is retiring this year as senior partner of Pictet et Cie, one of the two big Genevan private banks.

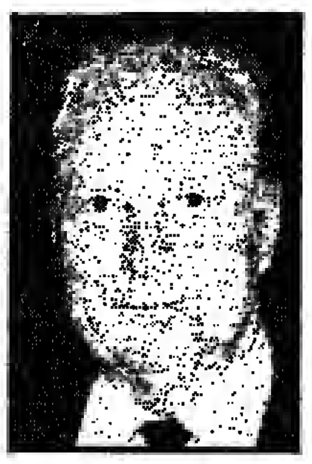
Retiring is perhaps the wrong word, for according to Genevan bankers who know him well, he is likely to be a very active chairman and he is keeping an office at Pictet. His intellectual capacity and openness to new ideas are widely regarded as having contributed decisively to Pictet's eminence and successful adaptation to a radically changed banking scene.

Claude de Saussure trained as a lawyer, married the daughter of a private banker, was introduced initially to Pictet by friends made during his military service and was sent to New York to train with J. P. Morgan and Lehman Bros in the early 1950s. His son, Jacques, born in New York in 1952 will become a partner in Pictet at the end of this year.

It is a tradition that the Bankers' Association is chaired by a private banker: Mr de Saussure succeeds Mr Alfred Sarasin from the private bank of the same name in Basle. The association represents the full spectrum of Swiss banking from the dominating big three with their strong international interests to the cantonal and small local banks and the finance companies.

"It means you need someone neutral in the chair: it would not do to have somebody from a big bank or a local bank," Mr de Saussure explains.

Something more than a lobbying organisation, the association negotiates with the Government, the National Bank and the Federal Banking Commission. At present it is reorganising with the collaboration of the Commission the *convention de diligence*, the agreement that sets the ethical standards for Swiss banking and provides a check on the ownership of funds coming from abroad.



Claude de Saussure, chairman of the Swiss Bankers' Association. One task is reorganising, with the collaboration of the Federal Banking Commission, the convention de diligence

A professional staff of between 25 and 30 people in Basle forms the mechanism of the association, but the essential decisions are taken in committees on which elected bankers serve voluntarily.

Mr de Saussure approves strongly of this system: "It keeps the association close to the banking community and means that it does not reflect only what our staff in Basle may think and write."

There is no real problem over the *convention de diligence*, Mr de Saussure claims, because the banks are agreed among themselves and there are no differences of substance with the Commission. The association's legal committee is sorting out "a question of legal approach."

With a Bill on its way through parliament the problems with the US raised by the absence of Swiss legislation on insider trading are also on the way to a solution. The banks, the Commission and parliament are close to generally acceptable definitions of what constitute abuses, Mr de Saussure believes.

Greater discord exists within the association over policy towards the finance companies and to what extent they should be made available to the Banking Act. Practically any foreigner can set up a finance company in Switzerland and the lack of reciprocity has irked Swiss bankers.

The possibility that authority over the banks is shifting from the National Bank to the Federal Banking Commission does not worry Mr de Saussure. On the contrary, he would be happy to see the Commission acquire the status of an uncontested authority.

"I admire the Bank of England: when it pronounces, people keep quiet and follow suit. The best way is to have a regulator that you can respect because you know that it will reach reasonable decisions. I would like the Commission to have such standing."

But, Mr de Saussure also makes it clear he would expect the Commission's authority to be exercised in the particular Swiss way. When the Commission issues a circular, or directive, it is frequently "kind enough" to submit a draft in advance to the Bankers' Association for comment.

Some circulars have been "very much improved" in the process. "We would like to keep the system of consultation before action," Mr de Saussure says. The Swiss manner of proceeding by consensus tempers authority.

On the question of whether or how regulations may be extended to banks' off-balance-sheet operations, the new chairman draws careful distinctions. Banks' engagements in organising swaps and note issuing facilities or in writing options are one matter, asset management another.

"If you have 10 guys in an office managing investors' portfolios, I do not think there is a very large risk." The association is likely to resist any generalised regulation of off-balance-sheet business.

On one theme Mr de Saussure is completely orthodox, voicing the strong conviction of Swiss bankers that if Switzerland is to remain a competitive finance centre something must be done to ease the stamp duties.

Failure to reduce the charges would not handicap all Swiss banking. "The big banks with organisations abroad will have no problems but it will be much worse for the smaller banks and that is unfair in my opinion," Mr de Saussure says in his chairman's role.

William Dullforce

Private Banks

Fast growth in personal service

IN THE great mass of Swiss banking tha private banks stand out as a small paradoxical elite. For some bankers they are anachronistic both in their image—brass name plates at the entrances to venerabla houses in historic city wards—and in their corporate form as associations of partners, frequently members of one family, eccepting unlimited responsibility for the bank's liabilities.

Yet some private banks are earning sufficient profits and expanding their business fast enough to sustain their prestige amply. The paradox is that, as their number dwindles, the typa of business in which the Swiss private banks specialise —*gestion de fortune* or tha management of wealth—is one of the fastest growing sectors in world banking, on which many big banks are concentrating their resources.

Arthur Andersen, the management consultants, caught this paradox in the survey they published in September covering more than 100 financial specialists' views on the outlook for Switzerland as a financial centre over the next 10 years.

Most respondents placed privata banking among the sectors where a contraction in numbers would take place. But they also agreed unanimously that banks specialising in asset management would achieve the best results over the next 10 years and foresaw an annual growth potential of more than 10 per cent in this field for both the big banks and the private banks.

The point, of course, is that as the scope for their speciality increases, so does the competition. Big US banks have seen that the Geneva private bankers' style of doing business with friends rather than with customers is more acceptable to wealthy clients. Making them feel special by arranging their holidays, finding schools for their children, advising them on art purchases, is no longer the monopoly of the private banks.

In return, the better organised private banks are bidding in competition with the big banks for the business of managing the immense, accumulating assets of institutions such as US and Swiss pension funds, and offering corporate financial advice.

Here performance against the institutional managers' chosen statistical yardsticks is the key to success rather than personal attentions but the larger private banks, Pictet and Lombard, Odier in Geneva, have successfully adjusted to the new techniques required.

One banker who believes there is a future even for the small private bank is Claude de Saussure, senior partner in Pictet and the new chairman of the *Swiss Bankers' Association*. Private banks have always operated at the international level precisely in the fee-generating off-balance-sheet area which is expanding under the securitisation of banking business, he points out; they should therefore have a reserve of experience on which to draw in facing up to competition.

Further attrition is to be expected in the ranks and no new banks are likely to be founded as partnerships with unlimited responsibility Mr de Saussure admits. But, he points out, the opportunities open to the remaining private banks capable of adapting have been demonstrated by banks of different structure operating in the same field, such as the Compagnie de Banque et d'Investissements (CBI) founded in Geneva in 1969 by Edgar de Picciotto and the more recent BZ Bank of Zurich, founded in 1985 by Mr Martin Ebner.

CBI, which specialises in portfolio management and securities trading, has achieved an average annual earnings growth of around 20 per cent since its foundation. BZ Bank, which concentrates on advising a selected group of institutional investors on Swiss equities, has had an outstandingly successful start and made a resounding impact on the Zurich stock market.

Partners in private banks have lost some of the tax advantages they once enjoyed from their corporate structure. A partner earning an annual income of SFr 2m from profits now has to pay SFr 200,000 in social security contributions in addition to tax. But a more severe problem which has sapped the vitality of several private banks has been that of ensuring the succession.

A family owning a bank cannot always breed a second or third generation capable of running it effectively. A grandson with a banker's fire in his belly may be left with a small, minority holding, the rest of the share capital being scattered among non-banking brothers, cousins, sisters and aunts. Reserves accumulated during two generations may be heavily depleted by inheritors' claims.

In Geneva, Pictet and Lombard, Odier, the two biggest private banks, have solved the problem by abandoning the partners' right to claim on the reserves when they retire. In addition, they open the partnership to carefully selected outsiders, lending some of them the funds to buy their way into the nominal capital.

In Zurich, the big private banks, Julius Baer and Vontobel, have formed themselves into limited companies, keeping control within the family. Vontobel raised some SFr 225m in July from an issue of bearer shares which left the family holding 85 per cent of the voting rights and the bank's employees 8 per cent.

Sarasin, the Basle private bank, has found a different solution. Last month it announced that it was transforming itself into a *Kommanditgesellschaft*, a form of limited partnership, of which there are only seven other examples in Switzerland.

The existing partners will continue to have unlimited liability but new investors will have their liability limited to the subscribed capital. "It is more difficult in Basle than in Geneva to find partners ready to take the risk of committing themselves to a private bank," Mr Alfred Sarasin explained.

The category of private bank may be becoming increasingly factitious but in Geneva, which has the most and the biggest, loyalty to the form is still strong.

If a bank is classified as private by the National Bank and does not solicit deposits from the public, it does not have to publish an annual report or observe official minimum capital requirements.

At present, there are only 24 banks (one of which does seek public deposits) in the category compared with more than 200 at the beginning of the century and 41 in 1945. Six of those remaining date their foundation back to the 18th century.

Some have been performing in recent years with much greater vitality and success than the decline in their overall number suggests. Statistics are not available but the private banks are commonly estimated to manage currently funds valued at about SFr 150bn.

A good third, perhaps as much as 40 per cent, would be with Pictet and Lombard, Odier, both of which have developed strong international operations, are active in London and New York, have invested heavily in information technology and have built up an institutional clientele.

The smaller banks work their particular "niches" among private investors; their future depends on their ability to exploit the traditional person-to-person service of private banking.

Statistics on balance sheet totals, capital and reserves for the private bank category published by the National Bank do not reflect the true size of the private banks' business or their actual reserves. The Geneva bankers are reported to have more than trebled their "own funds" since the collapse of the Leclerc bank in 1977.

Mr Hans-Dieter Vontobel, the chief executive, gave a hint of the current earnings power of a good, ex-private bank when he announced Vontobel's bearer-share issue. Real net earnings in 1985 were around SFr 50m rather than the published figure of SFr 14.9m, he said. His prediction "on the cautious side" for 1986 was a real net profit of around SFr 65m.

William Dullforce

The private banks

	Founded
In GENEVA:	
Bordier	1844
Darier	1880
Gonet	1845
Hentsch	1796
Lombard, Odier	1798
Mirabaud	1819
Mourgue d'Algue	1869
Pictet	1805
Tardy, Burrus	1914
In BASLE:	
Baumann	1920
E. Gutzwiller	1886
La Roche	1787
A. Sarasin	1841
In ZURICH:	
Hottinger	1968
Hugo Kahn	1923
Rahn and Bodmer	1750
Rued, Blass	1925
In LAUSANNE:	
Chollet, Roguin	1882
Hofstetter, Landolt	1780
In LUCERNE:	
Falck	1875
In NEUCHATEL:	
Bonhote	1815
In ST GALLEN:	
Wegelin	1741
In YVERDON:	
Piguet	1856
In GROSSWANGEN:	
Hans Kunz	1943

Source: Swiss National Bank.

Balance sheets

Year	Number	Balance sheets SFr	Capital and reserves SFr	Employment
1974	32	2.45bn	310m	2,429
1980	25	2.64bn	343m	1,930
1983	25	3.71bn	404m	2,168
1984	24	3.61bn	398m	1,915
1985	24	4.33bn	422m	2,069

Source: Swiss National Bank.

Cantonal Banks

Adjusting to a changing climate

THE 29 cantonal institutes may lack the international glamour of the Big Five but they do play a central role in Switzerland's substantial banking sector. With a total of nearly 900 branches spread throughout the country, the members of the Association of Swiss Cantonal Banks are particularly close to the local economy and the individual client.

This is far from meaning small-scale business, however, combined balance-sheet totals are some SFr 150bn. Five of Switzerland's "Top Ten" are cantonal banks. Cantonal banks are a peculiarly Swiss institution and based firmly on federal principles. They all operate only in their own canton — whereby Berne, Geneva and Vaud each have two — with various sorts of link to the local administration. In most cases, the Canton accepts responsibility for the banks' liabilities; where this is not or only partially the case, the cantonal government still takes a hand in administration.

It is, however, incorrect to view the cantonal banks as standardised state entities. Although most of them obtain their capital stock from the Canton—or, in the case of the Caisse d'Epargne de la République et Canton de Genève, from the communes — the cantonal governments generally have little direct interest in the banks other than collecting their dividends. The role of the State has also been reduced by a continuing tendency for cantonal banks to offer equity to the public.

Thus, the Vaud, Jura and Zug institutes have all issued shares and four others participation certificates. Even although a recent attempt to go public with the mighty Zurich Cantonal Bank failed, more such issues are likely.

The next one of these will probably be by the Solothurn Cantonal Bank, which intends to issue participation certificates as soon as its statutes are changed accordingly. In the meantime, the Cantonal Bank of Berne is increasing its participation-certificate capital from SFr 50m to SFr 62.5m in a one-for-four rights issue which will bring proceeds of over SFr 26.2m.

The cantonal banks naturally have a duty to the region—in the words of their association this is to "satisfy the investment, credit and monetary needs of the inhabitants, the economy and the public authorities in the Canton at fair conditions."

At the same time, the politicians do not want the banks to depart from commercial principles and make a loss; well-meaning loans resulting in major write-offs have happened often enough—most recently in Lucerne—for this point to hit home.

It is no longer enough simply to act as a friendly neighbourhood banker, as important as this down-home image remains. Times are changing and clients are becoming more sophisticated. The old recipe of savings books financing mortgages no longer works so well; interest margins are relatively narrow and everybody — not only the big banks but also the insurance and the pension funds—have been getting in on the mortgage business.

The Glarus Cantonal Bank has just broken through the 5 per cent mortgage barrier, by lowering its first-mortgage rate by 0.375 per cent to 4.875 per cent: this is also the first time that the rate has gone into fractions of one-eighth.

The cantonal bankers are well aware of the inroads that have been made into their traditional business, not least by the Big Five who can often afford to offer more attractive conditions on the home market, thanks to their high level of income from abroad. Although combined balance sheet totals of the cantonal sector have risen by some 40 per cent since 1981, there has still been a loss of market share.

This does not mean that the cantonal banks want to beat the big banks at their own game. "Me-too" activities would often cost more than they were worth, especially in the small cantons. Rather, the aim is to stop the gap from widening. The best way of going about this, according to Mr Hans-Jürg Gallusser, management chairman of the Basle Cantonal Bank, is by a "selective adjustment to altered market conditions and clients' requirements."

For the smaller banks, eight of which had a balance sheet total of below SFr 2bn last year, this is more easily said than done.

As recently as September the cantonal banks launched four new mutual funds — Swissca Part for Swiss equities, Swissca Interpart for foreign equities, Swissca Rent for Swiss-franc bonds issued by foreign borrowers, and Swissca Interrent for foreign-currency bonds issued by Swiss and foreign borrowers.

These were an immediate hit, says Mr Gallusser, and subscriptions have already reached SFr 310m.

Another new departure, this time in a sector where the cantonal institutes had hitherto not been represented, is the formation of Autisca Leasing-Gesellschaft. Based on the co-operation of 20 banks, this company is active in the field of car leasing.

At the same time, the cantonal banks—like all the others in Switzerland—are doing what they can to expand their off-balance-sheet activities elsewhere. In these non-interest operations they have always been successful in the business of capital-market underwriting.

Recently the banks have concentrated their efforts particularly in two sectors; one of these is helping to introduce "novice" domestic companies to the capital market; the other is to increase their presence in international securities issues—now also as co-managers.

As far as actual foreign business is concerned, the cantonal banks' power is limited. Apart from their natural concentration on their own regions, the cantonal governments would be chary of large-scale foreign exposure, and in some cases have restricted this

Despite this, the banks would not seem to have been making full use of their abilities up to now. Thus, the latest National Bank figures show that only some 4.3 of their balance sheet assets and 2.5 per cent of corresponding liabilities were accounted for by non-Swiss business.

A new window here was opened on January 1 when the cantonal banks took over a majority stake from industrialist Werner Rey in the former Omnibank—before that it had been the Phibro-Salomon group's Phibrobank — and renamed it Swiss Cantobank (International).

As its name suggests, the bank is intended to specialise in foreign transactions, whereby most of these will be in such off-balance-sheet operations as securities and foreign exchange trading and letter of credit activities, with some credit business in the short-term Euromarket.

Swiss Cantobank (International) is still in the process of building up its operations. According to its managing director, Dr René Zünd, the management is now following new strategic aims with a particular eye to expanding securities business in Switzerland and London.

At the end of last month it became known that Swiss Cantobank (International) was negotiating for the takeover of Deutsch-Schweizerische Bank of Frankfurt. Despite its name, this bank is currently in neither German nor Swiss hands but is owned by the Dutch subsidiary of the Credit Lyonnais group.

John Wicks

Top five cantonal banks

Bank	Balance-sheet total 30.9.1986	Balance-sheet total 31.12.1985	Net profits 1985
	SFr m	SFr m	
Zurich CB	28,889	27,890	66.8
CB of Berne	10,163	9,673	28.0
Vaud CB	9,506	9,065	45.3
Lucerne CB	9,251	8,921	25.8
St Gall CB	8,887	8,214	21.4

Foreign Banks

Proliferation worries the Swiss

FOR YEARS past the Swiss have adopted a liberal policy towards admitting foreign financial institutions, so that now foreign-owned concerns account for about one-third of financial companies in Switzerland.

The mere numbers—there are about 200 foreign institutions—are no true measure of the foreigners' impact on the country, however. In their banking activities and portfolio management the foreigners have grown up side-by-side with the Swiss without trespassing their traditional preserves.

But the proliferation of foreign institutions active in the foreign bond market, does worry the Swiss.

Finance houses, which are exempt from Swiss banking regulations and are active in the capital market, have been the main growth area in the foreign banking community.

The most recent statistics produced by the Association of Foreign Banks in Switzerland underline the foreigners' changing role. These show that in 1985 the number of finance companies grew from 104 to 113, and 81 (formerly 73) of these were under foreign control. In the same year the number of foreign banks and branches of foreign banks remained more or less stable.

The trend towards off-balance sheet business securities trading and portfolio management is reflected in the foreigners' diminishing share of Swiss banking assets. According to the Association of Foreign Banks, at the end of last year foreign-owned institutions accounted for 13.8 per cent of the aggregate balance sheet total of the Swiss banking system, 0.3 per cent less than a year earlier.

The combined ranks of the various foreign entities have, during the past few years, cut 20 per cent off the major Swiss banks' previous 80 per cent share of the foreign bond market.

This is one of the problems that has led the Swiss to re-examine the reciprocal requirements they should demand for allowing outsiders into their

Broadly, the Swiss recognise reciprocity where a Swiss institution is no more restricted in the foreign institution's own country than that body is in Switzerland.

Largest foreign banks

Ranking		Balance sheet (SFr m)
1	Trade Development Bank	7,186.7
2	Banque Paribas (Suisse)	5,673.6
3	Banca del Gottardo	4,483.2
4	Discount Bank and Trust Company	3,491.1
5	United Overseas Bank	3,423.0
6	Handelsbank NW	3,116.4
7	Banca di Roma per la Svizzera	2,859.2
8	Nordfinanz-Bank Zurich	2,749.6
9	Royal Trust Bank (Switzerland)* *Formerly Dow Banking Corporation	2,709.0
10	Banque Nationale de Paris (Suisse)	2,105.1

Source: Banca del Gottardo.

The position of the Japanese securities houses has been one of the main subjects of the debate about reciprocity. These houses are increasingly represented in Switzerland where Japanese corporates have long been the mainstay of the private placement market.

But the Swiss representation in Japan is much smaller and the split in Japan between the functions of banks and securities houses means that Swiss universal banks cannot enjoy the same freedom there as at home.

This led the Federal Banking Commission in March to call a temporary halt to the licensing of new Japanese operations in Switzerland while it reviewed the question of Japanese reciprocity. Since then, however, the Swiss and Japanese have resolved their differences for the time being.

The Japanese present a clear threat to the Swiss banks' domination of the foreign bond market since they have a captive customer base at home and have demonstrated in the Eurobond market their willingness to buy a market share.

So far, however, the Japanese have made little impact on the foreign market lead-management league tables. Rather, recognising that the might of the big Swiss banks limits their ability to launch a successful issue themselves, they have tended to channel mandates to the established players.

The US commercial banks active in the foreign bond market have more recently been joined by their investment banking counterparts. They, too, could carve out a significant niche in the foreign bond new issues business, though so far they have kept a fairly low profile.

The Swiss banks have maintained their rôle in lead-managing issues for the major borrowers in the market. But there have been instances of the US banks obtaining mandates from their best customers, as when Morgan Guaranty recently led an issue for Philip Morris.

Some of the foreign banks are, of course, establishment figures in the market. Both Handelsbank, which is majority-owned by National Westminster Bank, and Nord Finanz-Bank, owned by a Scandinavian consortium headed by Kansallis-Osaki-Pankki, run syndicates along the lines of, but subsidiary to, the syndicate run by Crédit Suisse, Swiss Bank Corporation, and Union Bank of Switzerland.

The one foreign bank that has set itself resolutely outside the pale of the "Big Three" is the Geneva-based Soditic, in which S. G. Warburg has a 47 per cent stake. This house specialises in bringing novel deals, often for less well-known borrowers, to the private placement market.

Soditic by-passes the "club deal" system and, Eurobond market-style, puts together ad hoc teams to underwrite particular deals.

The Swiss set much store on reserving their market for high quality borrowers and are afraid that the foreign banks will take it "down market." But they have made their own mistakes, such as when Dome Petroleum, Crédit Suisse's client, this year had to ask Swiss franc bondholders for a temporary repayment waiver.

Foreigners complain that the Swiss operate a policy of effective exclusion by making it difficult for them to obtain trained staff, for work permits are hard to get.

This scarcity of talent is felt acutely in the foreign bond market, where it is tending to put up salaries. Especially since the arrival of the US investment houses, it has caused staff moves between the foreign banks, a development contrary to the Swiss tradition of investors' loyalty.

Time will tell how far the foreigners will be able to challenge the Swiss domination of the foreign bond market. It may be that it is not a matter of ultimate importance to the Swiss banks, as they have long since recognised the need to expand their securities business abroad.

Meanwhile, Switzerland continues to attract foreign banks wishing to carry out lending business and portfolio management. These are not areas where the foreigners come into conflict with the Swiss, since the vast bulk of their work is on behalf of foreign clients.

The most usual foreign banking activity is treasury and foreign exchange, and lending business, transacted through a branch. For the past few years branches have been allowed to use their parent's capital as the base of their operations.

Besides, many banks have a Swiss subsidiary to carry out their private clients' business, which continues to be attracted by Switzerland's reputation as a secure and discreet haven for funds.

Clare Pearson

Capital Markets

The Big Three square up to stiffer competition

THE SWISS franc foreign bond market plays a key role in international capital raising, but has never succumbed to the extreme competitive pressures that have hit the Eurobond market.

Competition is limited because Swiss regulations allow only banks domiciled in Switzerland to issue foreign bonds, so the "Big Three"—Crédit Suisse, Union Bank of Switzerland, and Swiss Bank Corporation—with their extensive retail customer network still tower over the market.

These banks have established substantial fixed commission structures and comparatively leisurely issuing practices involving negotiated pricing between underwriters and long subscription periods for bonds.

Co-management positions are accordingly still a profitable business in the foreign bond market, encouraging a large inflow of new, non-Swiss players in recent years.

Although the market is flourishing, Swiss bankers often express concern that the turnover tax levied on all securities transactions in Switzerland will eventually cause a flight of business abroad.

But in the Swiss Government's eyes this fear is continually belied by the volume growth in the market. This year was no exception to a series of record runs.

As measured by Swiss National Bank authorisations, capital outflows for the first nine months totalled SFr 39.7bn, outstripping the total at the same stage last year by SFr 8bn. All but SFr 6.94bn of the amount was accounted for by foreign bonds and notes.

With 10-year borrowing costs as low as 5 per cent on "straight" issues for prime quality borrowers, the trend towards a concentration of issues at the shorter maturities was reversed during the first half of the year. In the year to May 31, public bond issues, with maturities of eight years and more, totalled SFr 11.64bn, SFr 3.6bn more than the total for notes issues.

In May the Swiss National Bank in a surprise move abolished the distinction between shorter-term notes (private placements with high denominations) and low-denomination, listed public bonds.

This was aimed at increasing pressure on banks to tighten disclosure on longer-dated deals. The National Bank had long been concerned that the lack of prospectus requirements for notes was a weak link in investor protection measures, since secondary market trading had grown up in these supposed private placements.

The banks were against the change since they feared that the increased costs and delays associated with public bond-type documentation would frighten borrowers away from the market.

Traditionally, when issuing a note they had made information circulars available for view at their offices and often these circulars contained as much information as a prospectus, they said.

Discussions between the Federal Banking Commission and the banks on the form documentation for notes issues will now take are still continuing. It seems likely that the market will eventually divide into two segments, one consisting of genuine private placements with denominations of at least SFr 50,000 and the other of publicly-offered notes which could be traded over-the-counter or even listed.

So far the scope for issuing longer-dated notes has proved limited because investors, concerned that interest rates may rise, demand coupons high enough to prohibit all but the most popular names, such as IBM, from issuing them.

The retail client base of the foreign bond market tends to limit the scope for diversifying issuing structures away from "straight" fixed rate bonds, but the market has been experimenting with a number of new structures this year.

During the spring a string of issues known locally as "FIPS" (Foreign Interest Payment Securities) enjoyed a vogue. These were a variation on the dual-currency bond, a familiar instrument in Switzerland, where the issues were undated and paid interest in dollars at a fixed exchange rate.

The "FIPS" were introduced by Credit Suisse, which issued a successful bond for PepsiCo in March. But it later became clear that the bonds gave investors no scope for participating in any rise of the dollar, while they suffered from a depreciation in the currency.

Soon the issues were trading at around 95, a discount to par issue price rarely seen in the Swiss franc sector.

Another innovation this year, originally invented in the yen market, was the "bull and bear" issue. These two-tranche bonds were designed to give the investor a five-year flutter on the Swiss Bank Corporation share index, as the redemption amount varied according to the future level of the index.

The borrower's exposure, meanwhile, was cancelled out by the two opposing sides of the transaction. But bankers said that, with most investors still optimistic about the prospects for the Swiss equity market, it was hard to find takers of the "bear" tranches.

Swiss bankers say their retail clients have little appetite for innovations, preferring the familiar, "plain vanilla" fixed-rate bond. At the same time, however, they acknowledge that competition in the international securities business means that they will be increasingly forced to diversify their product ranges.

The "Big Three" banks are having to face up to competition from new competitors in their own market. They fear that the influx of foreigners will disrupt the orderly market practices established through their influential syndicate, though as yet their control has remained broadly intact.

The "Big Three" have been unable to prevent the US houses from quoting grey market prices in new issues, however. The big Swiss banks discouraged this practice because they said it opened up the prospect of price manipulation, while the US banks argued that it increased investors' awareness of the true value of bonds.

But only Chemical Bank has gone so far as to quote screen grey market prices.

This year there have been signs of increasing disagreements between the "Big Three." Crédit Suisse and Union Bank of Switzerland, for instance, disagreed with Swiss Bank Corporation's pricing of its recent convertible issue for Bell Resources.

But the big banks dismiss any suggestion that this is a sign of the hierarchy cracking. They say that the fact that they feel able to voice their differences is really a sign of solidarity and strength in an increasingly competitive environment.

The Swiss franc foreign bond market remains, at least in their eyes, very much a club affair.

Clare Pearson

Authorised exports of capital

	By type SFr bn			
	Bonds	Private placements	Credits	Total
1981	7.58	11.85	12.78	32.21
1982	9.97	17.71	9.85	37.53
1983	10.29	20.68	9.20	40.18
1984	11.15	19.34	10.14	40.62
1985	17.27	19.13	9.69	46.09
1986: (to end-May)	11.64	8.04		
(June-Sept)	13.10*		†6.94	†39.72

* Totals no longer separated. † For the year.

Source: Swiss National Bank.

A foreign exchange dealing room in Zurich

Domestic Bonds

Equity warrants bonds in vogue

DESPITE the cancellation of Federal issues, which has brought them to their lowest level for many years, the Swiss franc domestic bond market has recorded further substantial growth so far this year.

In the first nine months, new issue volume totalled SFr 8.8bn, a 12 per cent increase over the same period last year. In terms of new money, the January-September sum of SFr 5.05bn was 32 per cent higher.

The Federal Government's borrowing programme has been sharply criticised this year after a federal and cantonal campaign to restrain spending. This has enabled the government to stay out of the market for much of the year as it has waited upon further reductions in interest rates.

The total new money raised by the Government in the first nine months amounted to only SFr 272m, against SFr 607m in the same period last year. Two issues, scheduled for June and September, were cancelled because of the uncertain interest rate outlook.

But the Government returned to the market last month, with a SFr 250m issue supplying 25-year money at a 4¼ per cent interest rate.

The banks, in contrast, have taken advantage of this year's lower interest rates and raised SFr 3.8bn of new money in the first three-quarters, as opposed to SFr 2.6bn in the same period last year. Their issues accounted for around 48 per cent of the new money total.

Frequently they have issued bonds with warrants into their shares. This structure further reduces their borrowing cost, and if they are subordinated bonds can be counted as capital for equity ratio purposes.

Equity warrants bonds have been strongly in vogue among a range of borrowers this year, as the buoyancy of the equity market has led investors to place a high value on the equity element so their cost of funds could be reduced substantially.

An unusual twist has been given to the concept over the last few weeks as there has been a crop of issues by banks and other borrowers with warrants into the registered equity of a listed company. The City of Zurich, for instance, has placed a series of 2½ per cent 10-year bonds with a consortium of banks. The bonds come equipped with three-year warrants into registered share of Ciba-Geigy, the chemical company.

Investor demand for fixed rate bonds was at its strongest during the early part of the year, but tailed off sharply in the late spring. This was despite the fact that at this stage bonds were providing a real rate of return of about 3 per cent as Swiss inflation dipped below 1 per cent.

Meanwhile there was a sharp upturn in short-term interest rates, triggered by a shortage of liquidity.

Demand for liquidity is particularly strong in early June, as it is at this time that commercial banks must pay their tax obligations and insurance premiums. The problem was exacerbated this year because of the very high level of equity issuance in the first half of the year.

A severe bottleneck occurred as the Swiss National Bank failed to loosen its medium term monetary target to accommodate the demand. Interest rates on one-month funds temporarily nudged 6 per cent in June, and this caused a "follow-through" upward move in longer-term rates. In three moves, the major banks adjusted their three-to-twelve month time deposit rates up to a uniform 4¼ per cent.

At this stage several new bond issues fell short of a full suscription quota, and coupon levels had to be increased. The big banks, for instance, were paying 4¼ per cent for three-to-six-year maturities, and 4¾ per cent on seven- and eight-year periods.

But in July the National Bank embarked upon a more flexible month-end settlement date financing policy, and a downward trend in interest rates began. The summer issuing recess also helped the bond market, as new issues were curtailed to SFr 2.3bn in the third quarter, about 25 per cent down on the April/June period.

This reprieve has cut back borrowing costs substantially.

Currently first-class issuers, such as cantons and cantonal banks, are paying about 4½ per cent for four-year funds; and 4½ per cent on five to eight-year bonds.

Bankers report steady if not spectacular investor demand at the moment as the institutions are short of cash following the year's heavy issuing volume.

Certainly, coupons at today's levels are worth having since inflation is now running at below 1 per cent. They provide a comfortable cushion even if, as some fear, inflation will approach 2 per cent next year as the benefits of the weak dollar and the fall in oil prices wear off.

Clare Pearson

Domestic Bonds

January to September totals (in SFr (m))

Type	Number 1985	Number 1986	Nominal Value 1985	Nominal Value 1986
Government	3	1	854	270
Cantons	12	12	745	1,025
Communes	6	5	192	329
Utilities	11	12	575	748
Industrials	1	8	300	419
Trading companies	2	1	60	10
Banks	38	58	2,796	3,829
Mortgage discount houses	7	7	1,000	1,200
Holding companies	9	6	350	610
Other	5	4	425	246
Total	94	114	7,797	8,777

Source: Swiss National Bank

Insurance/Pension Funds

Campaign against underwriting losses

THE INSURANCE industry is big business in Switzerland. Latest figures show that a total of 117 insurers and re-insurers are active there, all but 27 of them Swiss companies. In October of this year the Federal Office for Private Insurance released 1984 totals showing annual premiums of well over SFr 31.8bn.

Switzerland—and particularly the insurance centre Zurich—has not reached this level without a reason. First of all, the Swiss themselves are extremely insurance-conscious; in 1984 they spent the equivalent of nearly $880 per head on premiums, a figure second only to that of the United States.

The country's traditional orientation towards international financial services has further made it the home of several leading insurance multinationals. Of the 1984 premium total, some 53 per cent came from foreign business.

Swiss insurers and re-insurers are also very profitable. All leading companies showed higher net profits in 1985 and are expecting another good year in 1986. A Union Bank of Switzerland study published last month already forecasts a rise in earnings growth of "a good 10 per cent" for next year, always assuming a more favourable development of exchange rates.

As in previous years, however, this ostensibly gratifying state of affairs covers a serious weakness. This is the parlous condition of operating results in the non-life sector. Both direct and re-insurance groups have long had to hear heavy technical losses here, even if these have heen hitherto more than offset by rising and substantial capital income.

In 1985, Zurich Insurance, Swiss Reinsurance, Winterthur and Baloise Insurance alone booked a joint underwriting loss of some SFr 1.5bn.

In fact, things now look rather hetter. Last month Dr Walter Diehl, the Swiss Re chairman, pointed out that 1985 had seen the first break in the upward trend in underwriting losses for the company since 1979 and added that "there is every indication that we can expect further improvements in 1986." Zurich and Winterthur, whose underwriting losses had risen further in 1985, both also reckon with better operational results for this year.

An important factor in this trend is tha more selective approach to new business. Insurers feel they no longer have to accept unsatisfactory conditions with virtually inbuilt losses and have been rationalis ing their portfolios accordingly.

Earlier this year, the industry's own information unit, the Berne-based Versicherungs-Information, bad for cast a deceleration in premium growth for 1986. This seems likely to come true, largely because of the weakening of so many currencies against the Swiss franc bnt also as a result of more conservative acquisition policies.

The biggest fly in the ointment of the multinational operators bas long heen the American market—more specifically, third-party insurance there. Underwriting losses in the US last year accounted for about one-half of Zurich's overall operational deficit of SFr 592.2m, while American liability claims made up no less than two-thirds of Swiss Re's non-life underwriting loss.

Companies have been at pains to draw tha consequences from what Dr Diehl has called "liability hysteria" in the US. At the same time, American insurers have themselves been tackling the problems, while numerous states are reviewing claim procedures. In the words of Dr Heinz Portmann, management chairman at Zurich, imnrovements on the US market will this year have a "noticeable effect" on results.

Another operational measure which is now bearing fruit in Swiss Insurance is the minimising of costs. As Winterthur's managing director Dr Peter Spälti points out: "Not least from the aspect of competitive ability, we place great value on the lowest possible cost ratios in thet both in Switzerland and on various foreign markets limits are set to our premiums."

Most companies were able to reduce cost ratios in 1985—some, belped by the foreign-exchange situation, even saw an absolute decline in Swiss-franc costs.

Life assurance business was particularly successful last year. Big Five among the life insurers—Swiss Life and Pension, Winterthur Life, Vita, Bâloise Life and Patria—all booked premium growth of over 15 per cent for the year, quite apart from the overall rise in investment income. Not only are underwriting profits the rule and capital income substantial and growing, hut domestic activities were also boosted by the new pension-fund legislation. This first led to a marked npswing in collective policies and then, towards the end of the year, to the inception of so-called "third-pillar" programmes providing for individual provident policies benefiting from a government tax break.*

There have been some rather less positive developments in the life seector, too, however. The banks — which are themselves often less than happy about insurers' presence on the mortgage market—are competing in tha field of "third-pillar" programmes; this sometimes works in co-operation with life insurance companies, as with the new portfolio - management - plus - assurance - policy scheme of Royal Trust Bank (Switzerland), but mora usually not.

"Tha wind is blowing harder in the life-insurance husiness as numerous banks have set up as real competitors in the provident sector," says Swiss Life's management chairman Dr Walter Diener. "Life insurers will bave to offer their clients additional services."

In the international sector, the US again seems to have played a negative role. In 1985, for example, the underwriting profit from life insurance and re-insurance within the Swiss Re group plummeted from SwFr 78m to SwFr 27m, its lowest level in at least ten years.

This is attributed largely to extremely tough competition on tha US market, together with a coincidental rise in claims. Given the importance of this otherwise reliable contributor to operational earnings, the group has announced "immediate, energetic measures."

Good news for the life-assurance sector came at the start of this month, when Minister of Justice Elisabeth Kopp announced the long-awaited liberalisation of investment regulations. This means that in future life companies will be able to increase the share of equities in their portfolios, as well as obtaining permission to invest in foreign and foreign-currency assets.

This will remove a disabvantage the companies had been labouring under, not least compared with tha banks' investment foundations, and also reduce the larga share of life-assurance investments going into the property sector.

Apart from its disproportutionstionately large insurance sector, Switzerland is also the home of a legion of pension funds. These "second-pillar" institutions have become even more significant since the 1985 Occupational Pensions Act laid down compulsory pension-fund membership for all employees earning over SwFr 16,560 a year.

On tha one hand, this had led to the above-mentioned jump in new group policies for the Swiss life insurers and to a substantial increase—by 20.4 per cent in 1985 — in the holdings of so-called investment foundations, which manage portfolios for pension funds.

On the other, it has meant the strengthening of one of Switzerland's most important groups of institutional investors. States Councillor Markus Kündig estimates total pension-fund capital at something like SwFr 140bn, of which about SwFr 8bn is in the investment foundations. While the latter figure seems certain to rise, pension-fund managers—particularly those of major employers — are increasingly a force to be reckoned with.

This will be even more the case as they stretch their wings and make use of more enterprising investment opportunities—always, of course, staying within the framework of statutes and common sense. Large sums are still placed with the funds' respective firms, most of the rest in low-interest bonds, property and mortgages.

Early next year there should be a new yardstick at hand to measure how well individual funds are working, when the Swiss Bankers' Association introduces its performance index. This comparison will be available on a quarterly basis for compete pension-fund portfolios or separate investment categories.

One of the leading investment foundations, the Investmentstiftung für Personalvorsorge (IST) is in the process of competing a similar computer programme for its own members.

*These provident policies account for 25 to 30 per cent of all new life insurance business.

John Wicks

Major Insurance Groups

Group	Gross premium income 1985 (in SFr m)	1984 (in SFr m)	Increase (%)
Swiss Re	11,532	10,151	14
Zurich	10,839	9,611	13
Winterthur	7,734	7,294	6
Swiss Life*	4,066	3,486	17
Bâloise	3,037†	2,025	50†

* Unconsolidated. † Including premiums of Deutscher Ring.

Source: Schweiz Handels-Zeitung, Zurich.

Dr Walter Diehl, chairman of Swiss Re: hoping for further improvements in underwriting losses

Mortgage debt

Creditor	1985	1984 (in SFr bn)	1983	1982
Banks*	212.7	194.8	[illegible]	[illegible]
Insurance	15.3	14.1	[illegible]	[illegible]
Pension funds	11.9	11.1	[illegible]	[illegible]
Public authorities	1.0	1.0	1.1	[illegible]
Private persons and companies†	5.4	5.3	5.3	[illegible]
Total	246.3	226.3	[illegible]	[illegible]

* Including loans and advances secured by mortgages.
† Estimate by Union Bank of Switzerland.

Source: Swiss National Bank.

Mortgage Market

Cheap financing of dear houses

SWITZERLAND always tops the world tables for savings and for mortgage debt. The Swiss are not only a thrifty people but they also have an eye to the main chance.

With mortgage rates the lowest anywhere and amortisation compulsory for only part of the debt, it is not surprising that they have run up a per capita mortgage bill of something like SFr 40,000 ($24,345).

As to the interest rate, on conventional first mortgages it has never gone above 6 per cent in the past 10 years and reached this peak only during a sudden burst of inflation to the 6.5-per-cent mark in 1982.

Today, with the Swiss cost-of-living index showing an annual increase of 0.4 per cent, most mortgages are going at 5.25 per cent and some are even cheaper. Migros Bank offers 5 per cent and the Glarus Cantonal Bank recently offered a rate for local clients of 4.875 per cent.

The Swiss mortgage system is unusual, if not unique. Some thing like two-thirds of a loan is accounted for by the first mortgage, the principal of which does not usually have to be repaid. The remainder is in the form of a second mortgage, interest on which is usually 0.5 per cent, and normally it has to be amortised within an agreed period.

Nor has Switzerland special institutions like British building societies or the German "Bausparkassen." The business of granting mortgages is divided into many totally different sources. Traditionally, the major suppliers of mortgage credit were the cantonal, regional and savings banks and the local loan associations and credit co-operatives.

The past years, however, have seen a marked growth in the field — not only on the part of the Big Five but also from a wide range of non-banks.

Estimates released by the Swiss National Bank in October put the value of outstanding domestic mortgages (including mortgage-secured loans and advances) at some SFr 246.2bn at the end of 1985. Of these, SFr 212.7bn were accounted for by banks (which also financed an unspecified though much smaller volume of mortgages on foreign property) and SFr 15.3bn by private insurance companies and sick funds, SFr 11.9bn by pension funds and SFr 1bn by public authorities (primarily the Swiss National Casualty Insurance Fund).

The remainder is made up, according to Union Bank of Switzerland calculations, of about SFr 5.4bn granted by private persons and companies.

Demand for mortgages shows no signs of flagging. Latest National Bank figures show that in August the total mortgage and mortgage-secured debt of 368 reporting banks was up by some 9.4 per cent over the same month of last year. Given current prosperity and the high cost of Swiss land and building, real growth is set to continue at least until the end of next year.

This does not necessarily mean a corresponding growth of income for the lenders. Indeed, serious concern is being voiced by the traditional operators in the light of narrowing interest margins. The rule always used to be that mortgages would be largely financed by interest received on savings accounts. This is currently set at about 3.5 per cent, which in itself provides a sufficient margin.

But the trouble is that the banks can cover only a declining share of the burgeoning mortgage volume from their savings books. According to Mr Fritz Studer, of the Lucerne Cantonal Bank, the coverage rate was of about 90 per cent in 1975 — but only 67 per cent today for banking as a whole and 65 per cent for the cantonal banks.

Not all bankers suffer from this development. Mr Walter Ruegg, chief executive officer of Swiss Volksbank, says his bank pays for over 90 per cent of its mortgages from savings accounts — a result not least of co-operation with institutional investors in this field.

Generally speaking, however, more and more mortgage business is having to be financed by the banks' own medium-term, over-the-counter bonds (so-called "Kassenobligationen") currently paying 4.25-4.75 per cent or capital-market issues.

The theoretical interest margins of barely 2 per cent are themselves much lower than those common in other countries, says Mr Studer, pointing to comparable levels of 3.4 per cent in West Germany and 3.5 per cent in France. In fact the effective interest margin is considerably lower, only [illegible] exceeding 1 per cent.

Any further drop would be bad news for the cantonal and regional banks, of whose total balance-sheet assets 55 per cent and 60 per cent, respectively, are accounted for by mortgage or mortgage-backed positions.

These banks are also under pressure in that competitors are often less dependent on mortgages or can help to finance them from other sources. For example, the Big Five are keen to build up their mortgage portfolios so as to keep a desirable balance between foreign and domestic assets.

Insurance companies and the fast-growing pension funds also have an edge over the traditional mortgage banks in relation to financing margins. Furthermore, institutional investors are seen as tending to concentrate on "easy" homes and flat mortgages rather than higher-risk commercial property.

There is a limit to what the banks can do to widen the interest margin. Certainly nobody is even considering an increase in the mortgage rate, which will doubtless continue under pressure. However, a signal has just been set by UBS, as Switzerland's biggest single bank, in cutting back all savings and deposit-account interest rates by 0.25 per cent as of January 1 in keeping with a corresponding drop in the mortgage rate. Similar moves have since followed on the part of other major banks.

Mortgage rates themselves are also a key economic indicator in Switzerland, so that an increase in such a low-interest phase is politically out of the question.

What is happening is a constant diversification within the mortgage sector by the introduction of new lending patterns. One of the most successful of these innovations has been the fixed-rate category which guarantees the borower a given interest rate for a period of three, four or five years—and can then be extended or changed into a normal variable-interest mortgage.

This removes the uncertainty for the borower inherent in the traditional first and second mortgages, with their changing interest rates, while permitting banks to finance the loan with "Kassenobligationen" of matching maturities.

Another approach, designed to appeal especially to young people who can expect to increase their incomes over the years, foresees a graduated interest rate for the initial period of a first mortgage. That of the Zurich Cantonal Bank, for example, offers the capitalisation of 1.5 per cent of the interest in the first year, 1.25 per cent in the second year and so on down to 0.5 per cent in the fifth year.

The same bank also offers a "triple-phase" mortgage whereby five-year fixed-interest first and second mortgages for own-use homes offer interest down by 0.5 per cent in the first and second and 0.25 per cent in the third and fourth years.

Yet another possibility is the annuity mortgage, whereby a set sum is paid to the bank. At stable interest rates the amortisation share will increase while that of interest decreases. Alterations in the mortgage rates are reflected only in the amortisation sum.

The newest programme of some cantonal banks is the renovation mortgage, offering what is normally a 1 per cent rate reduction over a three-year period for limited — but still substantial — renovation costs. Under the Basle Cantonal Bank's "Renova" plan, these amount to SwFr 100,000 for a one or two-family house or up to SwFr 250,000 for larger properties.

Innovation in property financing is not restricted to the cantonal banks. Crédit Suisse, for instance, last year introduced a "home buyer's account" as a new savings instrument. Account-holders who buy their own homes after saving for at least three years receive a 30 per cent premium on their gross interest receipts.

As to the institutional sector, the investment foundation IST is considering the creation of a mortgage fund, while individual investors would no doubt take advantage of any statutory move to promote property ownership as part of "third-pillar" provident insurances.

John Wicks

Gold and Precious Metals

Zurich to gain from lifting of tax

DEALERS IN Zurich's gold and precious metals market have been feeling more optimistic about business in the second half of this year.

Although the gold price has suffered a correction since the late summer, it has reversed its long-term downward trend, and dealers are now looking for a period of consolidation at least.

Zurich is now in a better position to take advantage of any increase in business because the authorities hava lifted the sales tax on bullion and gold coins that has disrupted rotail business in gold in Switzerland for almost six years.

The abolition came in a package of tax reductions which became effective on October 1. The tax, which was raised from 5.2 to 6.2 per cent in 1982, had applied to merchandise sold by a wholesaler to an end investor where the sale involved the transfer of rights of ownership over tho metal. Therefore it covared both physical holdings and gold kept in a named deposit in a bank.

Tho Government felt able to lift the tax because, though it was highly lucrative back in the "gold bug" days of 1980, the long years of investor neglect of gold had reduced its revenues to a trickle.

The tax in fact only affected the extreme retail end of the market. Central banks wero always exempt from it and other customers simply credited their own holdings to a metal account with a bank making them exempt because they surrendered physical ownership.

Nevertheless, the tax caused a distinct though unquantifiablo flight of business from Zurich. German private investors, for instance, shifted their custom to Luxembourg. And it tarnished Zurich's image as a safe haven for gold investments.

So far, its abolition has had little effect on gold already held in Switzerland. Since investors are not concerned about exposure to the credit risk of the big banks, they are not rushing to move their gold out of metal accounts and into custody under their own names.

Bnt the sales tax lifting is generally expected to lead to new buyers increasingly taking physical possession of their gold, and it should boost business in the run-up to Christmas, as retail demand for gold coins steps up.

Whether Zurich can regain all the business it has lost is another question, given that tho tax was in force from 1980. Most bankers are cautious, and say they expect Zurich gradually to rebuild its market share.

Zurich's role as a major centre for gold trading, however, is not in dispute. Zurich's geographical centrality, its security and discretion make it hard to foresee its importance diminishing substantially.

The key moment for Zurich came in 1968 when the London market shut down for a fortnight and South Africa suspended delivery of newly mined gold. It was then that the three major Swiss banks — Credit Suisse, Union Bank of Switzerland, and Swiss Bank Corporation—combined their resources and formed the Zurich "Gold Pool" to keep tho international market going.

After South Africa resumed prodoctioo it continued to market a major portion of its gold through Zurich, which also had becomo an important outlet for Soviot gold.

Tho "Gold Pool" still fixed the Zurich gold price on a daily basis and in 1982 its international role was enhanced with the founding by tho three Swiss banks of the brokerage firm Premex.

Recently, Union Bank of Switzerland has announced plans to join Credit Suisse in making markets in bullion in London as well as Zurich. This means that London will heve abont 12 active market makers against about four in Zurich. But Swiss bankers deny that Union Bank of Switzerland's move to London is a sign that Zurich is losing ground.

They say that tho move is merely part of Union Bank of Switzerland's extension of its presenco in tho financial markets in London, and complemants its bullion activities in Zurich.

The founding of the Zurich silver fixing in December last year was a less eye-catching occasion than tho founding of the gold fixing because of the depressed state of the silver market. Supply far exceeds demand and the silver price's failure to move with gold and platinum prices has recently called into question its status as a precious metal.

There has, therefore, been speculation that the silver fixing is a pilot project for a further collaboration. But no such project has as yet emerged.

Tha Zurich silver fixing is unique in its market in that it is an open price fixing. This means that, instead of having to place his order in advance, the customer can alter it while the fixing is in progress.

Swiss bankers are hoping that this unique feature will enable Zurich's price fixing to become tho main one for European investors. They say that, despite the depressed state of the market over the last year, there has been an upturn in business since it was introduced.

Outside Switzerland, however, dealers tend to be sceptical. "You almost never hear about the Zurich fixing" said one London broker.

At any rate, the silver fixing signals Zurich's determination to remain a competitive force in the precious metals markets.

Clare Pearson

Profile/Kurt Hauri

Staff officer's new command

Kurt Hauri, director of the Federal Banking Commission

KURT HAURI, 50, is a colonel in Switzerland's militia army. He commands the 13th infantry regiment, but earlier he was for some years a divisional staff officer. Since February, as director of tho Federal Banking Commission, he has been chief of staff to the Swiss bank supervisors.

Following good staff practice, he has alreedy identified his principal objectives. One is to determine what new minimum capital standards may be required for Swiss banks after tho swift growth in their off-balance-sheet business. Another is to get o decision on the much-debated issue of whether banking control should be extended to the 120 or so finance companies, mostly owned by foreigners, operating in the country.

Mr Hauri's career has been entirely in federal service, as officer and civil servant, and confined to Berne, the federal capital. Trained as a lawyer at Berne University with a spell at Heidelberg, he went straight into the finance ministry, where he rose to become head of the legal department.

More pertinently for his new job he has presided since 1977 over the committee which has been working on a revision of the Banking Act. After voters had rejected in a 1984 referendum far-reaching changes that could weaken Swiss bank secrecy and after the latest government decision not to undertake a partial revision of the law, the committee's work has run into the sands.

There were good reasons, Hauri believes, for a thorough remodelling of the Act, now half a century old. Amendmeots would have improved protection for savers and investors and modernised some archaic rules on bank liquidity and tho distribution of earnings. But "better to have no revision at all than a partial revision," he says crisply with the air of a man who dislikes a bodged job and is eager to get on with business in hand rather than waste time on recriminations.

Oddly enough, one effect of the decision to abandon reform of the Banking Act will be to enhance the role of the Banking Commission which will continue to have considerable flexibility in interpreting the general principles enunciated in the Act and in diagnosing when the health of Swiss banking may be under pressure.

An immediato causo for concern, which the Commission shares with other national supervisory authorities, is the question of capital cover for the swelling volume of transactions conducted by tho banks which are not reflected on their balance sheets.

Basically, the Commission has accepted tho general recommendations of the Baslo committee headed by Mr Peter Cooke of the Bank of England and has circulated them to the Swiss banks.

But Mr Hauri's good staff officer instinct has led him to the conclusion thet better intelligence is needod before tho Cooke principles can be applied on the Swiss front. Last summer he set up a working group, which includes the banks, the Swiss National Bank and the Chamber of Fiduciary Companies. Their first job is to ovaluate the actual situation.

According to one rough estimato 57 per cent of the big bank earnings in 1984 were generated by off-balance-sheet business. Bnt Mr Hauri argues that the volume of business being conducted through new financial instruments is simply not known.

The working group has just approved o questionnaire which will be sent to all banks and finance companies. It calls for details on such matters as the guarantees undertaken by the banks when negotioting swaps, their exposure in trading options and futures and their commitments when managing portfolios.

Once the facts are in and have been assessed, the Commission and the banks will have to come to an understanding on three main points, according to Mr Hauri. These are the amount of "own funds" needed: how business now transacted off balance sheet can be shown in the banks' published reports; and the introduction of regular internal mooitoring of off-balance-sheet business by tho banks themselves.

By the end of last year 114 financo companies were operating in Switzerland. Of these only four, which solicit deposits from the public, were subject to the Banking Act and to supervision by the Commission. They all have the right to participato in underwriting bond issues and in portfolio management and havo been attracting an increasing share of the business in these fields.

The big Swiss banks, which freqoeotly work with these unsupervised financo companies, are less worried about the competition than are tho smaller Swiss banks, but for several years the argument has been hoard that something should be done to bring the companies under control.

A preliminary study was completed some six months ago but Mr Hauri was again not satisfied that all the staff work had been done. The Commission secretariat has now started a more thorough examination, investigating each finance company by turn. "Wo may well find we have to impose a minimum capital requirement," Mr Hauri says. But so far no action has been decided.

Legal considerations also colour Mr Hauri's ettitude towards supervision of note issues, the medium-term bonds fully deregulated earlier in the year by the National Bank. If the Banker's Association can ceme up with a suitable "convention" on note issuing, agreed by the banks. Investors may get fuller information from prospectuses than if the relatively limited obligations imposed by tho Banking Act on public bond issues were applied to tho notes, he believes.

"We will not reduce the scope of our surveillance but wo shall not try to increase the number of regulations," is how Mr Hauri sums up tho commission's philosophy. To undertake the more thorough-going surveillance be appears to envisage, ho commands a unit of only 28 lawyers, accountants and economists.

Mr Hauri and his staff report to the seven-member Commission presided over by Dr Hermann Bodenman, which is independent of both the federal governments and the National Bank. The Commission's power to sanction the banks is limited to refusing or withdrawing operating permits. On the other hand, banks contesting its directives have to appeal directly to the Federal Tribunal, the Confederation's supreme court.

William Dullforce

Profile/Arthur Bolliger

In the right place at the right time

ARTHUR BOLLIGER is one of the Bright Young Men of Swiss banking. Still only 38, he has been president and chief executive officer of Royal Trust Bank (Switzerland) and its fore-runner Dow Banking Corporation for over three years. In a business where youthful enthusiasm in high places is at something of a premium, he is one of the notable exceptions.

His curriculum vitae reads like the Pilgrim's Progress of a modern banker. A native of the hill canton of Appenzell-Ausserrhoden, from which he still commutes to Zurich, Mr Bolliger started off his career with an apprenticeship at the St Gall branch of Crédit Suisse, followed by a traineeship with Crédit Commercial de France in Paris to learn more about the credit business.

At the hoary age of 21, he decided that Luxembourg had a future as an international financial centre—and moved house accordingly. For the next four years he worked with Banque Lambert-Luxembourg at its head office and in Brussels. This got him into the then new Euromarket on the ground floor.

"I was dealing with the first wave of American and Japanese convertibles when hardly anybody knew what they were all about," he says today. The Lambert period also gave him valuable experience in portfolio management, not least in connection with the popular Luxembourg mutual funds.

After a time, however, Mr Bolliger came to realise that the Grand Duchy was not going to make it quite to the top. Looking at the market, he came to the conclusion that one interesting new development was the growth in Scandinavian borrowings. So he joined Dow Banking Corporation in Zurich as their area manager for Scandinavia, soon opening up the bank's representative office in Copenhagen.

He had chosen the right time and the right place again: about one-third of Dow Banking's total loan portfolio came to consist of Scandinavian lending.

By early 1975 he was back in Switzerland to take over as head of the bank's worldwide credit marketing, subsequently moving to London as branch manager. By then another new wave had arrived. "We were practically a Japanese bank, at least as far as our London operations were concerned."

Two years later, he made yet another move to yet another activity. The majority shareholder of the bank, the US-based Dow Chemical Company, appointed him assistant treasurer of its regional subsidiary for Europe, Africa and the Middle East in the Zurich suburb of Horgen.

Here he was responsible for the substantial volume of day-to-day financial management within a multinational, particularly in the fields of currency management and project financing.

In 1981 he went back to the bank, first as assistant chief executive officer, subsequently as CEO and then additionally president when another Bright Young Man — Canadian Lee Merzel — left Zurich for London to set up Dow Financial Services. At the takeover of Dow Banking by the Toronto-based Royal Trustco in June, he retained is existing positions.

When he assumed responsibility in Zurich, Mr Bolliger's main task was to build up non-interest activities in what had hitherto been a virtual "lending monoculture." This meant specifically the creation of a proper portfolio-management and securities-trading arm. His success here obviously impressed Mr Michael Cornelissen, the dynamic boss of the new majority shareholder, Royal Trustco.

Arthur Bolliger, chief executive of Royal Trust Bank (Switzerland)

Although commission income is growing, Mr Bolliger does not subscribe to the idea that fee-based business is all that matters. He is proud of his bank's considerable expertise in corporate financing (not normally much of a Swiss speciality) and also points to its substantial capital base. His aim is something like a 50-50 split between balance-sheet and off-balance-sheet business.

He agrees with those who claim that Switzerland is under pressure from other international financial centres, which frequently prove more innovative, are free of certain fiscal hindrances present in Switzerland, have strong national economies behind them — and are not subject to the serious shortage of skilled manpower which bedevils Swiss banks.

In the long term, though, he is convinced Switzerland will win through. On the other hand, competitor countries have potential problems of their own: Britain and Germany, for example, are threatened by "political Damocles swords," while the US, West Germany and certainly Japan are very much national rather than international stamping grounds.

On the other hand, Switzerland should benefit from its innate stability, its long banking tradition and the high quality not least of its middle and lower management echelons.

At the same time, he is convinced Swiss banks have the strongest financial reserves in the world—thanks not least to the policy of the watchdog Banking Commission—and are less likely to engage in experiments whose risks have not yet been sufficiently calculated.

As to the fiscal disadvantages, he admits that the effect of the recent tax reductions has been "negligible" but stresses the psychological importance of the government move.

For all that, "Switzerland should not have delusions of grandeur. We are only a small country with a small domestic market. But we have got excellent relations with the outside world. This means that we Swiss can keep up a leading position in certain niches—such as investment counselling in its broadest sense, capital-market business, currency and precious-metals dealing and, of course, the Swiss-franc sector."

Within Switzerland, the foreign banks can compete with the big Swiss banks—though again in niche activities and not across the board, Mr Bolliger says. In time, he wants Royal Trust Bank (Switzerland) to become the leading Canadian bank there. However, he stresses that "I do not want to be known as a Canadian bank as such, but rather as a Swiss investment-management and merchant bank with a powerful Canadian shareholder—in other words, a Swiss bank based on Swiss portfolio-management traditions which profits from the Canadian link."

John Wicks

Stock Exchange

The bourses are now getting their act together

THE SWISS stock exchanges have finally emerged in 1986 from the inertia in which they were drifting at the beginning of the decade and are now moving at a canter, if not at e gallop, towards becoming an internationally competitive marketplace for both Swiss and foreign eecurities.

Foreign investors, particularly the large institutions, to which the Swiss banks look for profitable fund managing business, bave acted as a spur to modernisation. In some instances their criticism and demands have produced startling results, such as last month's innovating issue, by the smart, young BZ Bank, of warrants covering the sacrosant registered shares of Swiss companies.

Credit must also go to the tripartite bourse commission, which is co-ordinating planning by the three big Zurich, Geneva and Basle exchanges. It is pushing through, with some predictable slippage in timetables, an ambitious programme for computerisation and the introduction of new trading instruments, which should culminate early in 1988 with the establishment of an options market in Swiss shares.

Trading in shares and bonds this year has not repeated the dramatic performance of 1985, wben turnover in Zurich, for instance, soared by 46.5 per cent to SFr 451.7bn ($266bn), the Swiss Bank Corporation index climbed 57 per cent to 636 points and Swiss shares put on 68.5 per cent in market value.

Nevertheless, at the 10-month stage this year trading in Zurich had already reached SFr 468.3bn or 35.8 per cent more than in the comparable period of 1985, while in the first nine months the Geneva bourse reported a 15.2 per cent increase in turnover to SFr 179.5bn.

Rates of growth differ because turnover is measured by the taxes paid on transactions to the cantonal treasuries and the Zurich figures inclnde the large volume of new aecurities issues lead managed there by the big Swiss banks, although 30 to 40 per cent of them may be placed in Geneva.

Bank Vontobel bas calculated that new issues and capital increases in the equity market totalled e record SFr 6.7bn in the first 10 months and should approach the SFr 7bn mark by the end of the year. That is equivalent to almost 4 per cent of the Swiss market'e total capitalisation.

During the period 1979 to 1984 total annual dividend payments by Swiss companies regularly exceeded the volume or new equity raised. The situation was first reversed last year when a sharp climb in the number of capital increases and share issues prodnced a surplus of SFr 3.2bn over dividends paid. Net new investment in equities should be about the same this year.

This sizeable volume of new equity has been absorbed without difficulty so far but Bank Vontobel gave a warning that, while the build-up of capital, particularly in institutionally managed funds, continues relentlessly, investors are becoming more critical towards capital increases and the use to which they are put afterwards.

Of the total volume of SFr 6.7bn in new equity raised in the first 10 months, issues of bearer shares with limited voting rights came to SFr 3bn and those of participation certificates with no voting rights to SFr 2.7bn. Only SFr 920m came from new issues of registered shares with full voting rights.

Swiss companies ban foreigners from holding registered shares. The practice was introduced in the 1930s to prevent Swiss enterprises being taken over by politically undesirable foreigners, and justified in the 1970s as a way of stopping oil-rich Arabs from gaining control of Swiss firms.

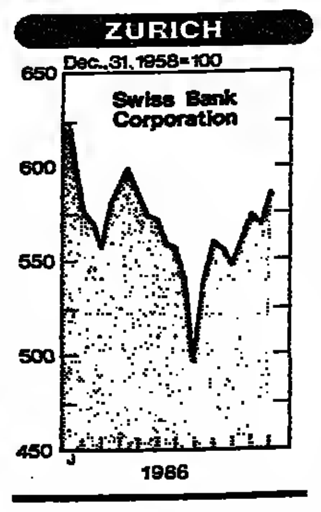
For many foreign investors the inaccessible Swiss registered shares are an irritating abnormality in the era of the globalised equity market.

Foreign interest for Swiss shares has been forced to focus on the bearer shares and participation certificates with the result that the bearer shares of blue-chip Swiss companies have been trading at premiums of 100 per cent or more over the registered shares.

This anomaly was exploited by Mr Martin Ebner, who founded BZ Bank last year and became the first newcomer to win a seat on the Zurich stock exchange for 20 years. He persuaded some institutional investors to deposit with BZ Bank 100,000 registered shares of Ciba-Geigy, the chemicals and pharmaceuticals group.

BZ Bank then issued 100,000 warrants at a price of SFr 350 each, carrying the right to buy the Ciba-Geigy shares for SFr 1,950 each any time during the next three years. The market price of the shares was SFr 1,840 at the time.

The response was electric. The offer, seized on by foreign institutions, was many times oversubscribed. Other banks jumped in with warrants for shares in several leading Swiss stocks, including those of Nestle and Sandoz. A market started with warrants trading at 20 per cent or more above their issue prices. The City of Zurich launched 10-year bonds linked to three-year Ciba-Geigy warrants issued by BZ Bank.



Companies quickly warned that they would not register changes of ownership to foreigners but Swiss investors, particularly the pension funds whose coffers are heavy with money accruing under new pensions legislation, are unlikely to miss opportunities to snap up cheaper registered stock. One effect must be to rednce the differential between registered and bearer shares.

Despite the misgivings of the companies, Mr Ebner, by precipitating a development which others had envisaged but not dared to initiate, stirred up the Swiss market, fuelled controversy over the ban on foreign ownership of registered shares and incidentally at one sweep increased the value of the portfolios managed by BZ Bank by some SFr 500m.

Pressure from the increasing foreign involvement for changas in the Swiss stock market is taking effect in other areas as well. Under study is a reviеion of the Admissions Board which authorises the listing of securitias and which has been criticised by foreign banks operating in Switzerland for being too strongly influenced by the big Swiss banks and too conservative in its decisions.

Continuous trading in the bearer shares and participation certificates of blne-chip Swiss companies, inaugurated in October, got off to a fumbling start. Teething problems are attributed to a shortage of trained staff. the relative dullness of the market and imperfect co-ordination between the three exchanges.

Adjustments, under which trading in the blue chips is divided between two rings and starts before the general list is called, promise to solve the difficulties.

Introduction of a new continuously traded shares index is planned for next March. Initially only a general index, probably named the Swiss shares index, will be produced but the intention is to build up a family of indices. The implication is that eventually the bulk of Swiss securities will be traded continuously.

The move to continnous trading is motivated principally by the need to prepare for the options market, which is the ultimate target for the current programme being implemented by the tripartite commission. The provisional date for the start of trading in shares options is January, 1988 with several staging posts to be reached next year.

Testing of an automated transactions settlement system began on the Geneva bourse in November. It should be functioning in Basle next Spring and later in Zurich, so that by the end of 1987 transactions on the three exchanges can be instantaneously settled through the network.

A computer-assisted trading system (CATS) for bonds and over-the-counter stocks was originally scheduled to open in June next year; it is now boped to have it working by September. At first it will handle only notes or private plecements but the goal is to cover all Swiss bonds and perbaps the less actively traded shares.

Inspired initially by the Toronto system, Switzerland's CATS bas been tailor-made to allow for the greater flexibility sought by the Swiss banks. They will be able to continne trading by telephone, adjusting the offers available on the screens but confirming deals through the computer.

The first equipment for the new Swiss options and futures market was ordered in October and should be installed in January, allowing a year for testing and training. The market will be launched with a dozen options in Swiss shares and move on to index-based options.

Training programmes have already started. A staff bottleneck already exists on the Swiss bourses and an urgent need to train new and retrain old staff has loomed increasingly large, as the tripartite programme has advanced and the exchanges have tried to cope with the demand of investors for facilities to match those available on some foreign exchanges.

Zurich, the biggest exchange, will have to wait until 1991, when its new building should be ready, to solve its space problem. The Geneva and Basle exchanges happily inaugurated new premises this year. Slowly but steadily the Swiss bourses are getting their act together.

William Dullforce

Structure of Banking system

1985

Category	Number of banks	Balance-sheet figures: Total	Foreign assets	Foreign liabilities	Fiduciary transactions	Net profit	Employees
		in SFr m					
Cantonal banks	29	144,007	6,251	3,600	3,097	441	15,332
Big banks	5	394,627	205,148	160,604	76,909	1,949	52,743
Regional and savings banks	216	64,388	1,002	862	729	205	7,359
Credit co-operatives and Raiffeisen banks	*2	20,747	—	—	—	40	2,442
Other banks	189	114,371	66,850	50,228	100,320	1,071	20,239
of which: Foreign-controlled banks	104	76,341	54,971	41,064	77,255	702	11,481
Finance companies	112	19,396	17,022	12,641	5,161	255	1,143
of which: Foreign-controlled finance companies	81	17,184	15,774	12,399	4,677	189	1,008
Branches of foreign banks	16	15,995	11,062	9,089	21,137	145	2,192
Private banks	24	4,226	1,352	1,593	7,621	—	2,066
Total	593	777,747	308,687	238,617	214,974	†4,106	103,510

* Two associations with 1,237 outlets. † Without private banks.

Source: Swiss National Bank, October 1986.

Maintaining a key role

CONTINUED FROM PAGE 1

early 1988. The Geneva and Basle exchanges occupy bigger, new premises.

A market in covered warrants on the registered shares of leading Swiss companies may be taking shape after their controversial introduction last month by an enterprising young bank. The companies fear that the warrants could be the precursors for a more direct assault on the registered shares in which ownership is entrenched.

At this stage it may still be unthinkable that prestigious Swiss companies should ever be subjected to takeover bids of the kind common enough in New York and London. Bnt the arrival of the warrants and the voracity with which they were snatched np demonstrates that the Swiss stock exchanges are not immune to cheeky innovations.

With three small tax concessions the Federal Council has this year partially acknowledged the validity of the bankers' long-running campaign against the stamp duty and other fiscal charges on financial transactions. The banks argue that the duty, which in 1986 will bring in over SFr 2bn to the federal coffers, puts banks in Switzerland at a competitive disadvantage compared with banks in London and other financial centres.

In September, the Council trimmed from 0.3 per cent to 0.15 per cent the duty charged on Eurobond subscriptions made through Swiss banks. It abolished the 35 per cent withholding tax on the interest paid on interbank credits: before interest had been exempt from tax only if the term of the deposit was one year or less. It removed the 6.2 per cent value-added tax on sales of fine gold and gold coins.

A modest step in the right direction, the bankers said but larded their thanks with a reminder that they were still looking for action on the more fundamental — and to the Treasury more lucrative — stamp duty on Eurobond trading and on the foreign-to-foreign securities business done through Swiss banks.

Something of a Catch-22 situation prevails over the stamp duty. The SNB with the help of other central banks has succeeded in preventing the emergence of a Eurobond market in Swiss francs giving banks domiciled in Switzerland a monopoly over Swiss franc bond issuing.

Removing the restrictions on Swiss franc capital exports, as the SNB bas hinted it may eventually have to do, if it should lose the complicity of other central banks, without lifting the stamp dnty would, as the banks have pointed out, mean that the Swiss franc issuing business would move to London.

But lifting the stamp duty and opening the way for a revival of Eurobond business in Switzerland would also put moral pressure on the SNB to abolish the stipulation that Swiss franc bond issues must be lead-managed by banks domiciled in Switzerland. Stamp duty relief would seem to be inextricably linked with liberalisation of the Swiss franc bond business.

For the time being at any rate, however strong the flux of change in the domestic financial markets instigated by international competition and their own regulating bodies, the Swiss banks continue to flourish.

After the 18 per cent climb in net earnings recorded in the SNB figures for 1985, bankers were cautious at the beginning of the year in forecasting the outcome for 1986. Now, although some slackening may have appeared from the third quarter, analysts are predicting another profit advance of between 15 and 20 per cent.

Once again the main earnings generator seems to have been the fee-based securities business rather than traditional lending, although a recovery in banks' net interest income was a feature of 1985 developments. The question of capital cover for the banks' swelling off-balance-sheet business preoccupies the Federal Banking Commission as it does bank supervisors in other countries.

Most Swiss banks have been able to take advantage of strong profit growth and the buoyancy of the stock market in 1985 and 1986 to reinforce substantially their capital bases. At the end of last year the ratio of capital available in all Swiss banks to the prescribed minimum capital requirement was 122 per cent —and Swiss capital requirements are among the stiffest.

Exchange rate developments were cited by the SNB as being largely instrumental in the four-point improvement in the ratio. Nevertheless, the figures for the five big banks show that they raised SFr 1bn in new share capital last year and were able to allocate SFr 3bn to their open and latent reserves from 1985 earnings. (The SNB definition of big banks includes Swiss Volksbank and Bank Leu with the big three, UBS, SBC and Credit Suisse.)

That financial muscle gives credibility to the big three banks' declared intent to keep their place in the international banking sun. Wherever the main action is, New York, London, Tokyo, the Swiss are there in strength. This year they have staked out their positions in Japan, being among the first foreign banks to win security trading licences in Tokyo.

Penetration in force of West Germany started as soon as the Bundesbank liberalised its capital markets. Credit Suisse this year merged into one operation the two local banks, Grundig Bank and Effectenbank-Warburg, it has bought. UBS took over Deutsche Landerbank at the end of last year, and SBC, which set up it own bank in Frankfurt, has just doubled its capital.

Competitive internationalisation was singled out by respondents in the survey of Swiss financial prospects recently published by Arthur Andersen, the management consultants, as one of the most important modifying influences on the structure of Swiss banking over the next 10 years. In general it was expected to work to the edvantage of the big banks and the foreign banks established in Switzerland.

Swiss banking has been losing some comparative advantages as deregulation proceeds abroad, capital restrictions tumble and others adopt the Swiss traditional universal banking system. Under the mutations now taking place, Swiss bankers regard it as vital to consolidate those still available—political neutrality, sound government finance, low inflation coupled with steady economic growth, efficient domestic markets and not least the bank secrecy which still inspires the confidence of foreign investors.

FINANCIAL TIMES SURVEY

Algeria

Algeria's leaders have set in motion a number of major economic reforms which, if implemented, should give the country a faster and more balanced growth. Maintaining the international credibility of its economic policies remains a cornerstone of Algeria's foreign policy.

Moves to unshackle the economy

By Francis Ghilès

●President Chadli Bendjedid, left, faces the challenge of a sharp fall in Algeria's oil and gas income. Inset (above) are two heroes of Algeria's past. Emir Abdelkader (left) led the resistance against the French, after they invaded Algeria in 1830. He became famous in Europe 30 years later, for preventing the massacre of the Christians in Damascus where he was then living in exile.
Hadj Ahmed Bey (top right), another notable leader, once appealed to the British Parliament in 1834 to help preserve his people's freedom.

UNTIL THIS autumn, a neon-lit slogan flasbed on ond off throughout the night from the roof of the Algerian Ministry of Light Industry declaring to the population below, "Hard work and discipline guarantee our future."

A message that had bitherto appeared merely words, it has recently been driven bome somewhat more forcibly. In a speech last montb to the annual meeting of the country's walis (provincial governors) President Chadli Bendjedid paioted a severe picture of how Algeria was managed, lasbing out at the inefficiency of the public sector and the arrogant ways of the bureaucracy, at state firms wbich accumulate deficits, and at industrial plants wbere absenteeism is rife.

The bead of state exhorted the walis to do all they could to help farmers and quoted the private sector as an example of high prodnctivity and good quality. State companies be said all too often condoned waste, obllvious of the country's straitened circumstances.

These remarks came after three days of some of the worst rioting in Algeria since 1980 during which crowds of young people in Constantine, attacked every symbol of the state they could find, including the provincial headquarters of the ruling Front de Liberation Nationale (FLN) party.

The exact make-up of the crowd is still in dispute bul among its components were students protesting at the poor living conditions on campus and secondary school children worried at rumours that extra subjects might be added to the "baccalaureat" exam—lhus making access to university more dlfficult. In addition there were groups of hooligans, easily recruited among the many youthful unemployed. (Two-thirds of the country's 23m people are under 20 years of age.)

They all have grievances. Indeed the population as a wbole is having to face up to the high prices of many foodstuffs, to intermittent shortages of others, sucb as in recent months coffee and edible oils, and the enormous difficulty of finding adequate accommodation. University students have been further upset by the disbandment, on orders from the presidency, of the Commission Nationale des Bourses (the scholarship commission). This body, which chooses candidates for the coveted scholarships overseas, has been accused of malpractice.

For 20 years after independence in 1962 cheap food and housing, free education ond health were promised—and delivered. But with 700,000 Algerians swelling the population every year and a sharp decline in foreign earnings this year, the state can no longer foot the bill.

The decision to shift the focus of development in 1980 away from heavy industry and towards social and infrastructural improvements was implemented slowly bnt the reining in of the external deht and the ability of Sonatrach, the state oil corporation, to bold its foreign income (97.8 per cent of the country's earnings) on an even keel in 1983-85 helped to stave off sharp domestic cutbacks in consumer goods supply and fuel inflation, at least until 1986.

The path prescribed by President Chadli—a hreak with the strait jacket of state capitalism hequeathed hy the former president, M. Houari Boumediene, who died in 1978—is no easy task. The authorities have hegun to hand back state land to private farmers, and they have taken measures to reduce the deficits incurred by many state companies. They bave also allowed many prices to rise, and shifted spending towards schools, hospitals, roods aod bousing, and away from heavy industry.

Access to education, particularly at university level is becoming more selective, a necessity if standards are not to fall, and it has been decided that food prices must continue to rise if the toroaround in the long neglected farming sector is to he successfully negotiated. There is now recognition, too, that pay scales must be altered, to reward those who work and penalise those who do not.

The slogan of yesteryear, "For a better Life," is now forgotten. Yet many things have changed, and indeed improved sioce Mr Chadli Bendjedid acceded to the presidency in 1979. Demand for food, consumer goods and housing continues to rise, bowever, as mooey incomes have outstripped production.

The army remains the backhone of Algeria, as it has heen since independence, the caucus of senior officers retaining considerable influence over domestic and foreign policy decisions.

A number of its officers have sought clvilian posts (the former head of internal security, Mr Kasdi Merbah, for example, is turning out to be a very effective reformer in the field of farming) while many of those who hold command posts in the soutb bave done much to build roads and develop the local economy.

Many senior members of the cabinet were guerrilla leaders duriog the war of independence (1954-1962) and however far from the army their careers have taken them, retain very close links with senior officers. The senior technocrats and diplomats do carry weight, as does the ruling FLN party.

Those opposed to the unshackling of the economy whicb the President is seeking are to be found in many sectors of Algerian life. Some of them are ideologically committed to certain beliefs, others, maybe the majority, fear for their privileges.

Among the critics of the regime are Muslim fundamentalists who do not hesitate on occasion to use violence against the state. The leader of a band of armed men who attacked a police training school at La Soumaa near Algiers in August 1985, bas yet to be caught.

Agitation in the Berber beartlands, particularly in Kabylia where many people feel their culture was not given sufficient recognition, is less today than a few years ago.

Yet, for all the evidence of discontent, no one group offers a real threat to the state. Tbis is because dehate is no longer entirely conducled behind closed doors, even though the inner workings of power remain very secret. The media wrile and broadcast in a manner whicb would bave been untbinkable a few years ago.

In foreign affairs, Algeria's commitment to non-alignment remains strong but its support for Third World liberation movements is less strident than in the 1970s.

It still has a wounded feeling of isolation at the way the Arah World bas refused to support its commitment to Polisario in the latter's struggle to establish an iodependent state in the former Spanish Sahara. This conflict shows no sign of solution, 11 years after it started.

At the same time suspicion and hostility hy the western powers towards a professed anti-imperialist state on the Mediterranean has largely disappeared. Algeria's role in helping to secure the release of US diplomats held hostage io Tehran five years ago demonstrated tbat the purchase of most of its weapons from the USSR did not make the country a Soviet proxy.

Maintaining the international credibility of its economic policies remains a cornerstone of Algeria's foreign policy, though it is ao issue seldom discussed in public. It has been scrupulous in honouring its foreign deht payments, despite the considerable difficulties presented by the near balving of its foreign income.

Algeria's leaders are well aware of the challenge that confronts tbem today, but they have set in motion a number of key reforms. If implemented, these should in the medium term help their country hack on to the path of faster and more balanced growth.

On other pages

The economy

Policy changes speeded up as exports fall

FOR the first time since the quadrupling of oil prices in 1973-74, Algeria's gross domestic product will, this year, fail to expand as fast as the country's population—2.9 and 3.2 per cent respectively.

Real GDP rose 8 par cent last year. It was helped especially by a good agricultural performance where a humper crop douhled the output of cereals.

This year the Government has cut Investment by one-quarter to DN 93bn ($20.09bn) and imports hy one third to DN 30bn ($6.48bn), as the country's sales of hydrocarbons, which account for 97.8 per cent of its foreign income, have fallen by 40 per cent from last year's figure of $12.8hn.

Hydrocarbons will account for 32 per cent of hudget receipts this year egainst 40.4 per cent last year. Despite the present adverse situatioo, the development of the economy is of paramount importance and investment this year will amount to 31 per cent of GDP against an average of 40 per cent between 1980 and 1985.

The fall in export earnings is also hastening many of the chaoges in economic policy which an earlier reassessment, made in 1979-80, had hrought about. This reassessment showed that the policy of very bigh rates of growth conducted since the mid 1960s was not without shortcomings, in particular, a lower investment priority for other sectors, particularly agriculture and the concentration within the indnstrial sector on steel and petrochemicals.

This in turn led to the emergeoce of a small number of major industrial corporations like Sonatrach (oil and petrochemicals) and SNS (iron and steel), which tended to reinforce the ceotralising and hureaucratic tendencies within the economy.

Sioce 1980 there has been a marked shift away from heavy industry aod towards agricnlture, public works, education and bealth. But progress has in some respects been slow.

The Government's policy nf "vérité des prix," which seeks to ensure realistic pricing, contlnues and prices of many products in beavy and light mannfacturing are being revised to reflect actual costs. Prodncers' prices for those crops which are delivered to official buying agencies were raised last year by between 20 and 25 per cent and further increases were eoforced this year.

The price of cereals, edible oil and books continued to be snhsidised through the hudget at a cost of DA 2.3bn last year, while the prices of milk, sugar and fertilisers are subsidised through a compensation fund financed from taxes. Together these subsidies represent about 2 per cent of GDP.

Speeding up reforms at a time when the country's foreign income has fallen so sharply presents President Chadli with his greatest challenge since he took office.

Over tbe past five years the high level of investment has allowed a fast rate of growth, the creation of many oew jobs and significant progress in social welfare. But the comparison between the high rate of capital formation and the rate of expansion still implies a low return on investment.

Senior officials in Algeria insist that the greater flexihility in prices introduced in recent years, the re-organisation of public enterprises (whose number has increased eightfold to 482), decentralisation and the insistence on higher productivity, with the greater role given to private enterprise all amount to a recognition of past weaknesses.

While the results of tbis policy are encouraging in agriculture they are less so in housing, despite the 100,000 units completed last year (40 per cent more than in 1984). This derives from the fact that rents for public housing, which still constitute the hulk of whet is on offer in the main cities, nften absorb less than 20 per cent of private wage income.

Furthermore, bank deposits still yield a negative interest and there is little direct link between what an individnal may deposit and his chance of acquiring a house or flat. State-owned housing units are, bowever, now being sold to their occupiers.

Decentralisation has been at most e mixed blessing, since locally-sponsored state companies set up since 1983 have run up debt estimated at DN 25bn ($5.4hn), thus prompting the Banque dn Développment Rural to be nicknamed "Banqoe du Decouvert Local" ("bank of the local overdraft").

Snch companies will now be wound up if they run a deficit for more than three successive years.

The breaking up of the giant state corporations of the 1970s was necessary but it led to a lot of blood-letting among senior executives, particularly in the energy sector. Whatever tha faults of the formally all-powerful state oil and gas monopoly, Sonatracb, it did train the brighter managers and engineers that Algeria now has.

In some sectors progress is clearly seen. Many new roads bave been built, airports improved, schools, nniversities and housing units completed. But there is a race against tima to keep up with what, until last year, was a rising per capita income and the hirth of 700,000 new Algerians every year.

Quality control is needed rather than new buildings and increased lecturers' pay. Such big institutions as the recently opened technical university of Oran will be more difficult to manage than smaller units. Algeria has done mnch for its young people but careful selection is now a vital need if educational standards are to be maintained.

Where health is concerned a lot of money has been spent but a number of recently built and fully equipped hospitals remain closed for want of qualified nurses and technicians. Until recently expensive equipment was bought which Algeria does not have the means to operate.

The "péché mignon" ("favourite sin") of more prosperous days has come to haunt a number of senior technocrats and managers. This was to order the most up-to-date equipment and fail to conclude a firm maintenance contract.

In industry progress is reel if patchy. In steel and a number of consumer durables, the factories have seen their output increase. The share of Algerian-made goods in consumption and in investment has risen at the expense of imports.

The principle of self-financing and self-accounting, if more thoroughly implemented, should give management more control over their surplus funds. Such surpluses had been spent increasingly on "social" requirements, notably creating new jobs.

Managers have been unable to give efficient workers significant bonuses and had no freedom to reinvest any profits made. Senior officials and the Press often blame them for the country's difficulties hut what these people need is to be encouraged.

A move away from the rigid patterns of pay established by the Statut Général du Travailleur (workers' general statute), whose implementation has increased wages bills by 25 per cent overall will benefit the skilled and highly productive workers. Pay differentials will perforce increase, hut is this not what is happening in China, a country the Algerian Press is so fond of praising?

Such policies carry risks. About 130,000 new jobs will be created this year, but twice that number are seeking employment. The unemployment figure of 17 per cent underestimates the seasonal nature of many jobs in farming and trade. Such risks have been aggravated by the sacking of workers in certain state companies, which ran repeated deficits, for the first time since 1962.

The Government will have to give the creation of new jobs far greater weight when deciding on investment projects if only because the growing number of unemployed youngsters with little interest in the political ideals which still motivate many of their elders are a serious potential threat to Algeria's social stability. Birth control will take a long time to be accepted in country whose variety of Muslim faith is traditionally puritan.

Cutting imports and state investment has required political courage, though food imports have been left almost untouched.

Whatever other reforms are made, the state monopoly of trade is unlikely to be ended or exchange controls relaxed. The exchange rate of the Dinar remains overvalued, in the view of many Western observers, but Algerian leaders believe that their policy has served them well.

Now, however, there is talk of subsidies for exports other than oil and gas. But how far Algeria might be prepared to go towards exchange rate flexibility it is still impossible to say.

Francis Ghilès

Key economic statistics

• Values in Dinar bn

	1983	1984	1985*	1986*
GDP at current prices	233.8	262.3	292.5	320.0
Agriculture	16.6	19.7	24.3	30.0
Petroleum and Natural Gas	62.1	63.0	63.8	50.0
Manufacturing	22.4	26.8	31.8	41.0
Construction	32.2	38.2	43.2	52.0
Change in GDP (%)	12.6	12.2	11.5	9.2
Increase in Consumer Price index (%)	6.7	7.1	10.7	10.0
Budget Revenue	84.5	99.1	106.7	96.0
Proportion of hydrocarbon receipts	37.7	43.8	46.8	30.0

Balance of payments (US$m)

	1983	1984	1985	*1986	*1987
Trade Balance	3,643	4,189	5,023	1,560	2,408
Services	−3,934	−4,270	−4,206	−3,300	−2,500
Goods and Services	−291	−81	816	−1,800	−360
Gross reserves (excluding gold)	2,166	1,803	3,097	1,500	1,500
• The following figures are percentage of GDP:					
Exports	26.1	24.3	22.4	14	12
Imports	19.5	17.5	15.1	11.8	8.8
External debt	25.4	23.9	19.2	17	16.3

* FT estimates and projections

Source: Government statistics

Overseas Trade

Struggle to balance the books

THE Government's response to an expected foreign revenue drop of 40 per cent bas been to reduce imports hy 30 per cent while emphasising the urgeot need to develop the fledgling noo-hydrocarhon sector. But with such exports accounting for less than 2 per cent of the total its impact is unlikely to be dramatic in the short-term.

In addition, oil and gas exports are denominated in dollars. This favours tha sector when the US currency is bigh but hlunts tha competitiveness of other exports transacted in softer correncies.

Last year Algeria recorded a $3hn trade surplus which almost compensated for its services deficit. But this year it will have a struggle to keep its trade halance near equilihrium.

In recent years consumer goods have borne the brunt ol import cuthacks and last year stood at 12.8 per cent of the total against 16.2 per cent in 1983.

Foodstuffs, which had slid to 17 per cent of 1984 imports, rose to 22 per cent last year.

Tha Government tries whenever possihle to insist on "balanced trade"—ln particular with European countriea, which it considers its natural markets for hydrocarboos. But with countries as powerful as Japan aod the US lt lacks the muscle to press for a halanca and is therefore less insistent.

Counter-trade is another feature of Algerian economic policy as a means of conserving foreign currency. Foreign companies complain that the practice ls on the increase, that it complicates negotiations and raises the costs of contracts. But in the Algerian view counter-trade is only another aspect of the balanced trade philosophy.

Historically, France has been the country's main trading partner. Fifteeo years ago France supplied 30 par cent of imports. This concentralinn nn a single market left Algeria dangerously exposed and when in the 1960s France refused to buy wine—then a major export-earner—from the newly-independent country, Algeria was forced to barter it at lnw prices to the Soviet Uninn or dump il in large quantities.

Algeria's trading partners

(Figures in percentages)

	Imports 1983	Imports 1984	Imports 1985	Exports 1983	Exports 1984	Exports 1985
EEC	84.5	86.1	87.9	59.8	65.2	64.4
North America	9.7	9.5	10.6	23.7	22.4	17.6
Japan	6.0	8.1	5.8	3.5	0.7	1.0
Eastern Bloc	6.3	5.2	4.5	0.9	2.6	5.0

Source: Algerian Customs Authority

THE authorities in Algiers have tightened the rules about local offices representing foreign companies, a move which many believe will drive business out of the country.

Algerians are prevented by law from representing foreign groups, which have to staff their own offices. There are two types of office: liason offices and site offices. Liaison offices act only as representatives and may not trade, although site offices may do so for projects under way.

The changes would require liaison offices to pay a registration fee in e foreign currency of Dinars 10,000($2,000), deposit $20,000 and maintain a bank balance equivalent to three months' operating expenses. Site offices are exempt.

Such changes are intended to eliminate companies which have been abusing their liaison office status; but there are fears that bona fide companies will be hit, especially in the service sector. The cost of maintaining a site office for each project will be substanstial.

The lessons of this affair have nnderstandahly had e major inflnence on trade pollclea, so when tha Government nationalised the former French oil lnterests in 1971 lt tried to avoid too great a dependence nn any ooe customer. One result was that by 1979 the French share of Algerian imorts was down to ahout 18 per cent. But French exports recovered in 1982 when President Mittarrand agreed to pay 20 per cent above world market prices for Algerian gas. France's market share in 1985 stood at 25.9 per cent.

Today, Algeria's main trading partner ls the EEC. lt accounts for 64 per cent of its 1985 imports, down from 69 per cent in 1982. Algerian exports to the EEC last year totalled $8.8bn.

West Germany has maintained its pnsition as the second-largest foreign supplier, although its market share slipped from 13.9 per cent ln 1982 to 11.2 per cenl in 1985.

Italy's share of the import market was halved between 1981 and 1982 beceuse of a dispute over prices for the gas it was buying from Algeria. After that issue was settled, Itallan exports gained ground, eccounting for 10.9 per cent of imports in 1985. This favourahle trend is expected to contlnne following the new gas price negotiated in September.

Fiat has long had a strong position in Algeria. Its Impresit civll engineering subsidiary is hullding a hotel, commercial centre and lihrary complex in the Hemma district of Algiers. The Italian giant is also thought to be tha favourite to win the contract for a joint-venture car and light vehicle assembly plant at Tiaret.

Spain'a position as a supplier has weakened following a dispute ahout gas sales. In 1985 its share of Algerian imports fell to 1.4 per cent, cnmpered with 7.5 par cent ln 1982.

Imports from Japan are also down, from 7.3 per cent in 1982 to 8 per cent ln 1985. But Algerian exports to Jepan are still a modest $117m. Japanese salas in Algeria are mainly of cars and heavy equipment.

US exports to Algeria—one-third of which are foodstuffs—fall to 5.5 per cent from 7.6 per cent in 1982. Algerian exports to the US were also lower, reflecting ln particnlar the cancellation by US companies of large gas contracts.

The Soviet Union provides most of Algeria's milltary equipment—although France and Britain are also active—and bas been involved in energy genaration and steel making.

UK companies were slow to move lnto the market and today only account for 3 per cent of overall lmports. This is partly because UK diplomets in the 1970s advised them to steer clear of tha country, believing that it was heading for economic disaster.

At present UK exports to Algaria are mainly of foodstuffs, chemicals, iron and steel goods.

Faced with declining revennes, Algerla needs to attract investment and to this end the 1982 law on joint ventures was ammended, in July. But, the Trade Minlstry failed to win the National Assemhly's approval of a clause allowing foreign partners to hold a majority stake.

The authorltles are also keen nn "tecbnology transfers", where the foreign partner undertakes to train a local workforce. But many foreign groups complain that the Algerians are among the toughest negotiators they have ever encountered. Although contracts are always honoured in the end, they say, payments are often late and many companies have to huild this factor into their hudgets.

Yet the consensus among foreign companies estahlished in Algeria is that the conntry offers good prnspecta for making money and many such groops are competing activaly to gain a foothold.

Senior Trade Ministry nfficials ln Algiers dismlss criticism of thair negotiating style and point out that as a young independent country Algeria has to move cantio.isly and firmly when dealing with large foreign gronps which are well used to holding out for the best possible terms.

Patrick Butler

External debt

Imports cut to avoid rescheduling

VERY STRONG measures have been adopted this year by the Algerian Government in order to contain the fall in the country's foreign dollar-denominated income. The aim is to avoid recourse to the International Monetary Fund or indeed ao overall rescheduling of the external deht, whose amouot exclnsive of short term debt, the IMF estimates at $13.9bn.

Imports have beeo cut hack by just over one third from last year's figures of Dinars 48.5bn ($10.4bn), while the iovestment budget has declined by just over one quarter. Foreign travel allowances have been slashed hy 75 per cent and it is no longer possihle to receive spare parts and other small items from ahroad through the postal service aod pay io dinars on arrival.

These measures will save the balance of payments $500m in 1986 alooe. Imports of food will cost $1.94ho this year, virtually uochanged from last year's figure. Such imports will represeot nearly ooe third of all goods brought into Algaria, however, compared with one fifth last year.

Foreign companies, meanwhile, are experieocing longer delays than hitherto in their payments especially since last summer, a time at which Algerian oil was being sold for $10 a harrel and less.

Delays are made worse by the propensity of Algerian state companies to order moch of what they buy late in the year. Such delays, the authorities acknowledge in private, are ioevitahle and they do not weigh on all foreign companies equally. Those who have a large portfolio of activity in Algeria, notably the Japanese and some Italian and French companies are able to devote time to chasing paymeots through an extremely complex hureaucratic maze aod io consequence suffer less than others.

Such delays could dent the country's standing abroad, even if they pale beside the prohlems many western companies are facing in other major third world oil producing countries, notably Nigeria and Iraq.

Many foreign companies have heen asked to agree that the 15 per ceot down payment in cash on new contracts be financed on the same terms as the rest of the contract. Counter-trade barter agreements may have contrihuted to $1bn worth of exports this year, but, they add to the cost of imports by e margio of at least 50 per cent.

Algerian banks are also asking that 90-180 day supplier credits be refinanced over 12-18 month period. They have also sought to raise hank to bank mooey over an 18-mooth period but, overall tha country's short term deht is not believed to have swolleo beyood $1.5hn and may be less.

International banks have been paid puoctually. Algarian bankers enjoy a reputation for tough bargaining which served them well wheo the price of oil was high. The cost of such a stance could be great, however, if the prica of oil does not recover.

Earlier this year, the Banque Algerienoe du Developpemeot came unstuck when the very fine margins it was offering international banks led to the retreet of ooe of the two managers, Indosuez, and a cut in the size of the loan from $500m to $300m. Most of the loan was left with Japanese banks.

A $300m loan for the Banque L'Agricolture et Du Development Rural, the first time this bank had tapped the syndicated loan market received a much warmer receptioo last spring on account of the more geoerous margins it offered the lenders as has a recent $250m loan for Banque Nationale d'Algerie.

Bonds have also been raised in the Germao and Japanese capital markets but banks from the latter country now face greater restrictions on such off halance sheet risks as letters of credit and confirmation. US banks are more reloctant to take on third world risk io general. International banks are concerned about Algeria but are unlikely to be more co-operative simply because tha country manages its debt conservatively. Algerian state borrowers have, until last month resisted the desire, expressed by many banks, to sell part of the paper they underwrite in the market.

Another issue which makes foreign bankers unhappy is what they feel is the "lack of reward" their counterparts in Algiers are willing to give them when they come in to support a major Euroloan usually priced very finely. Putting ancillary business in the direction of these banks would earn the Algerians more support than hitherto.

Algeria could also go some way towards placating foreign banks by providing more up to date information on the country's economy, in particular foreign debt. Statistics provided by the world bank and the IMF on the one hand, the Organisation for Economic Co-operation and Development (OECD) and the Bank for International Settlements (BIS), diverge by a measure of more than $2bn. It may have mattered less when the country's foreign income stood at $12.8bn. Now that this has declined by 40 per cent a greater measure of harmony is needed.

Most of the funds which flowed into Algeria in 1984 and 1985 (about $4bn) went towards rebuilding hard currency reserves. Excluding gold these doubled to $2.8bn between December 1984 and the end of last year. Today they are reckoned to have fallen to between $1.5bn and $1.8bn. During the seven year period until the end of 1985, dealings on foreign loans were limited to match principal repayments.

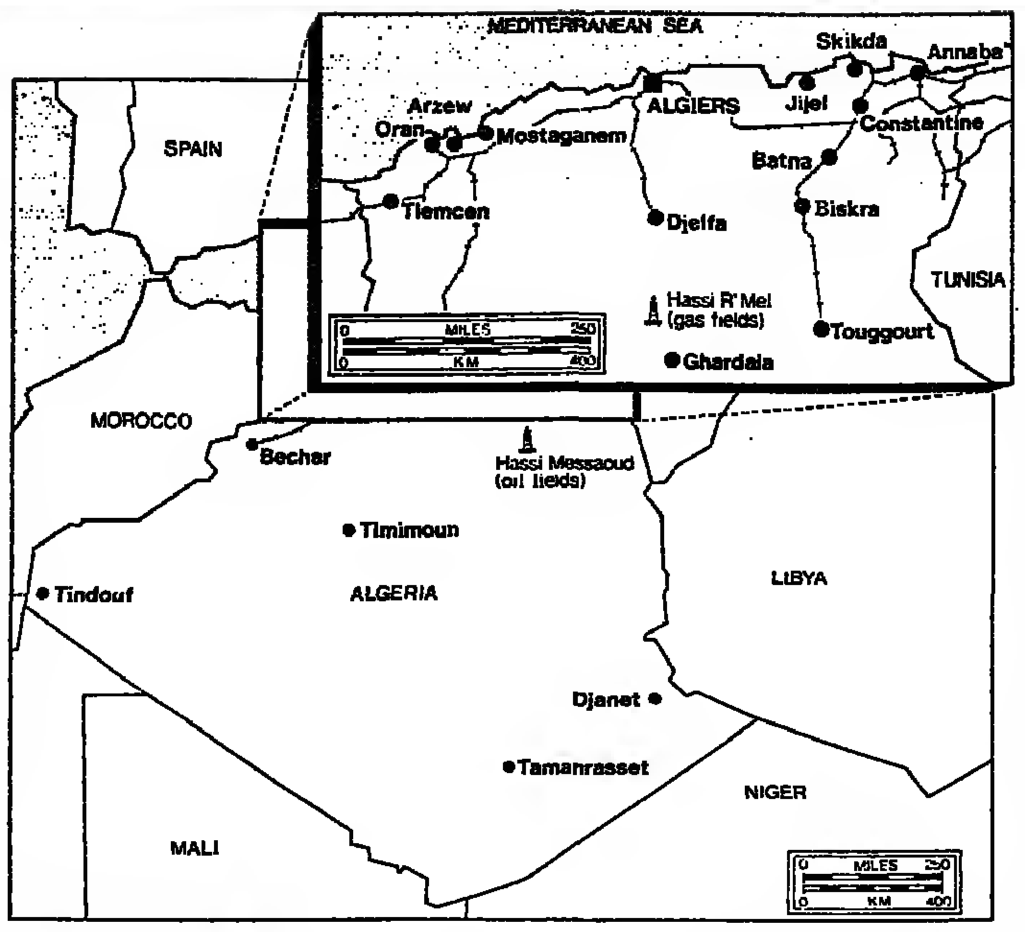
Algeria has little multilateral debt, just under $500m having been borrowed from the World Bank, with another $500m on offer from this source, and very little from Arab funds, which were neglected until very recently.

Another source—yet to be tapped—is co-financing between the World Bank and international banks for certain projects which the World Bank supports.

The debt service as a ratio of exports of goods and services on the country's medium and long-term debts amounted to 35 per cent last year—this year it will rise to around 45 per cent.

The problem the Algerian authorities have been confronted with this year is one of cash flow. The problem they will have to confront next year will essentially be dictated by the level at which the price of oil settles or fails to settle.

Francis Ghilès



External debt in $bn

• These figures exclude short-term debt which is estimated to amount to around $1.5bn

	1982	1983	1984	1985	1986*
Debt outstanding including undisbursed	20.25	18.74	18.85	18.39	18.65
Disbursed debt	13.88	13.10	12.98	13.65	13.90
Disbursements	2.23	3.30	3.01	3.33	3.80
Principal repayments	2.39	3.52	3.26	3.25	3.60
Interest repayments	1.36	1.23	1.29	1.29	1.10
Total debt service	3.75	4.75	4.56	4.55	4.50

*FT est.
Source: Algerian Government sources

The banking system

A more autonomous role

IN ESSENCE, the Algerian hanking system is no different from that of all centrally planned economies. But a numher of reforms are being introduced which though proceeding very slowly point towards a more active and autonomous role for these institutions.

The first-ever domestic bond, lauoched last summer by the Banque de l'Agriculture et du Développement Rural, netted Dinars 2hn (£303m). It pointed to the government's wish to mobilise more domestic funds then hitherto, in particular by allowing hanks to mobilise long-term deposits.

Algeria still has billions of dinars locked up in private homes and state company coffers and many transactions are conducted with wads of hank notes. Many transactioos totally avoid the use of cheques and bank accouots.

The major hanks, all state-owned, include:

The Beoque Extérieure d'Algérie, fouoded io 1967, whose role, according to its statutes, was to finaoce foreign transactions, ootahly those of the state oil and gas monopoly, Sooatrach. But the developmeot of its domestic oetwork has, in recent years tended to blur its difference from other hanks. It is, however, deeply involved in the steel, shipping and insurance sectors.

The Banque Nationale d'Algérie looks after the ioterests of the metallurgical, mechanical, domestic energy sectors and certain areas of transport. It holds the largest share of domestic deposits.

The Crédit Populaire d'Algérie looks after the interests of the tourism, building, pharmaceutical, media and health-care sectors.

Two other commercial hanks, the Baoque de l'Agriculture et du Développement Rural and the Banque du Développement Rural were founded in 1982 and 1985 respectively to look efter the interests of farmiog and the food iodustry—now top priorities for locally-owned state companies.

The Banque Algérienne du Developpemeot, the sole bank entitled to provide a sovereign guarantee to foreign lenders and iotended to finance major Infrastructural projects.

The Caisse Nationale d'Eparnoe et de Prévoyaoce is trying to develop somewhat along the lioes of a huilding society, though the severe shortage of honsing in Algeria makes such a role difficult. Much of the 20 per cent iocrease in domestic savings (to DN 23.6ho) recorded io the year to July 1986, is in the form of deposita with CNER.

The Central Bank plays a vital role since oo foreign payment can be made without its agreement. Otherwise it undertakes the many ohligations of most central banks. But it has never rivalled the all-powerful Mioistry of Finance, its statistics department remains weak.

As the push to industrialise the country got under way in the late 1960s the hanks' role was esseotially limited to raising credits and bonds abroad and investing in state compaoies at home. Only in recent years, as attempts to unshackle the ecooomy began, has the role of the hanks been enhanced.

To support the restructuring of public eoterprises a oumher of changes have already been made in the fioancial system. Decentralisation of decisioo-making away from head offices, io particular, has been eocouraged. The authorities have sought to make the hanks mohilise and channel savings to companies io deficit rather thao those in surplus.

In this context a hroader raoge of financial instrumeots has beeo made aveilahle to savers. Most commercial hanks are likely to he involved increasingly in fioaociog medium aod long-term iovestment projects.

Some Algerians are oow suggesting that investment projects be split into two categories: those written into the Economic Developmeot Plan, which the banks would be ohliged to fioance; aod those where particular state companies would have to convince the bank that what they wish to do is economically viable.

If implemeoted such a divisioo might eliminate many wasteful or oversize projects; but if it is to succeed the senior staff of all Algeriao banks will need to be strengthened aod many more managers trained io the skills of project assessment—no easy task in a country which has inherited archaic practices of old Freoch state style hanking aod which often prefers to ohserve the minutiae of complicated rules rather than take a bold inltative.

The Banque de l'Agricultnre et du Développement Rural has demonstrated, however, that if the political will is there old hahits can change. It has created a form of savings account lnto which farmers cao put thelr mooey (though without ioterest since this is against the sharia law which rural folk respect). They cao withdraw their money at any of the hank's ageocies throughout the country.

Since 1983 the bank has also more than trehled the annual volume of loans to the farming sector while increasing the percentage paid to the rapldly-developing private sector. But it must now tighten its rules to avoid delays io repaymeot, especially on ooe-year loans intended to help farmers through the winter mooths.

The Dean of the Ecooomics Faculty at Oran University, Mr Ahmed Henni, pointed out io a receot article that the comhination of a centrally-planned ecooomy (with its consequent rationing of capital aod consumer goods) and age-old mistrust of the state effectively uodermines the rôle of mooey; and when, as today, there are fewer consumer goods and less credit availahle, the hoarding of paper money grows—hence the relatiooship betweeo the prioting of oew mooey aod inflatioo is distorted.

Mooetary growth last year was reduced from more than 20 per ceot a year io the early 1980s to 14 per ceot—a figure close to the rate of inflation. The Ceotral Bank has deliberately tighteoed its monetary policy and the volume of savings has increased. This pollcy will oo douht be malotaioed, which is all the more necessary io a year wheo the budget deficit will reach ebout DN 14bn.

Last summer, the banks allowed Algerlans to open long-term foreign curreocy accounts with no questions asked. Many people did so in the hope that it would make travel abroad easier at a time wheo the official allocatioo of foreign currency had been severely cnt back. Meanwhile, this edds a small but useful sum to the dwiodling foreign reserves of the Central Bank.

If Algerien baoks offered more attractive terms than the 7 per cent for five years tax free which the Banque de l'Agriculture et du Développemeot Rural announced last summer, savings could be more easily mobilised. At a time when the sharp fall in foreign income is cuttiog deeply ioto the funds available to finaoce domestic expenditure such a policy would make sense.

Francis Ghilès

Private sector development

Entrepreneurs re-emerge

UNTIL RECENTLY, visitors to Algeria could have been forgiven if they failed to notice that the country possessed an enterprising class of private entrepreneurs.

Up to the late 1960s, private businesses were encouraged, particularly in the textile, leather, plastics and food processing sectors. However, throughout the following decade, the increasingly strident and dour Socialist doctrine preached by the country's political leaders appeared to threaten the very existence of such entrepreneurs, whose activity was often described as "parasitical" and "exploitative".

People who owned factories, most of which were and still are concentrated around Algiers and Oran, kept a low profile.

Getting to know such people was almost impossible, especially for diplomats. Discretion was essential and many of these people were not allowed to renew the machines they had bought when they started up a business, let alone expand their factories or build new ones.

Most entrepreneurs sprang from the ranks of wholesale traders, who often had foreign partners of the later colonial days. As the years passed most of them sought discreet protection high up in the establishment. "Non exploitative" private industry was recognised in the National Charter ratified in 1976, but the climate of the later Boumediene years was not conducive to any great expansion.

After the accession to power of Col Chadli Bendjedid, in 1979, a freer climate prevailed and a thorough rethink of former economic policies began. The role private enterprises had played was recognised, and it was now encouraged.

Private industry did not rush to expand, however, and few new projects were started, so deep did suspicion run that the new economic policy could not take root.

Over the past two years, however, encouragement has been offered on a far greater scale than before, not only in the farming sector but also in industry. New factories, usually fairly small, have been set up especially to make consumer goods.

Older factories have been able to re-equip while in Oran a whole new private enterprise zone has been set up near Es Senia airport.

Private shops, restaurants and hotels, have sprung up in far greater variety than before, but starting up a private business in Algeria is still a difficult and expensive operation. Three to four years for a plant employing fewer than 50 people is not uncommon.

The ownership of such businesses remains shrouded in mystery, although the new chambers of commerce are now playing a more open role.

A sense of progress is unmistakable, however, and the sharp decline of the country's foreign income is putting pressure on the state to offer further inducements. But uncertainties remain. Not the least of them is that no limit exists on the amount of capital any one person can invest, making newcomers and old hands very cautious.

There is no doubt but that the state monopoly on foreign trade will continue, and, because of the rigidity of such a system it is still necessary to carry large stocks of raw materials and spare parts. However difficult producing the goods remains, selling them presents no problem. They always sell at a good price so keen are 23m Algerians for a wide range of consumer goods.

Such goods remain scarce because the average purchasing power is high by the standards of the region, the state produces too few such goods, many of which are still brought back by the two million Algerians who travel abroad every year.

Private entrepreneurs are active in many sectors of Algerian economic life. They predominate in the textile, shoe and building contractor industries and ancilliary service trades such as heating, electrical appliances and plumbing, in plastic industries and the vast bulk of the retail trade.

They are also active in food processing (soft drinks, canning, sweets, poultry, fish, dairy products and biscuits), an area in which they are bound to become more important as more and more state land is handed over to the private farmers.

Other sectors where small private workshops play an essential role include mechanical repairs, spare parts, a very lucrative area if only because Algeria boasts a huge number of cars and machines. Consulting engineers, architects and such areas as printing and software also provide jobs for the private sector.

However difficult it remains to set up in the trade, many Algerians have but one dream—to be their own master or work in a small private company—and thus avoid joining state companies whose reputation as employers has declined in recent years. Salaries there, at least so far as skilled workers are concerned, are not very high.

Since 1982, a new investment code has sought to encourage private investment textiles, plastics building and food processing and encourage exports.

Chambers of Commerce which had been closed in 1974 were reopened in 1980 and became operative in Algiers and Oran in 1983. Both have been actively engaged in listing private companies as nobody knows exactly how many such enterprises exist in Algeria nor how many people they employ.

They are doing a stirling job in training people especially in the field of accountancy and encouraging what remains a difficult dialogue between the private and public sectors. They are looking for new products which companies might make, talking to the banks about such things as how best to promote such factories and ensuring that companies respect the terms of the contracts they sign to deliver raw or semi - raw materials.

The lack of stability of those employed in the private sector remains a major source of concern. Employees often leave as soon as they are qualified and can earn a higher income elsewhere, or try; have two jobs at the same time—in short Algeria suffers from a labour force whose origins and practices remain rooted in the rural behaviour of their recent past.

Most have little experience of industrial work and employers are reluctant to sanction days which they take off work, often because of obligations towards members of their family, which society still considers essential.

There never was any alternative in Algeria between the private and the public sector so far as investing in major infrastructure is concerned. Major infrastructure work, heavy industry and development of the hydrocarbon sector could only have been undertaken by the state. The private sector was encouraged up to 1970 but then forced for political reasons to adopt a low profile until 1980.

Today many new companies are starting up and the scope for faster growth, particularly in the service industry, is considerable. There is no shortage of private capital in Algeria but many civil servants and not a few members of the ruling party remain deeply suspicious of private enterprise.

Years of propaganda painting Western capitalists in unfavourable colours have taken their toll although most Algerians are perfectly aware of the real difficulties their country confronts when negotiating with Western corporations.

That does not make them worshippers of a rigid and all embracing state run system at home. Today, the state, because it is short of money, needs to encourage private capital into productive investment as never before. Many hope it will dare brave the entrenched interests in the ruling party who are most bitterly opposed to further liberalisation. Private sector investment doubled in 1984 and increased by a further 50 per cent last year.

This increase should make opponents of private business appreciate the potential of this sector. They know full well that President Chadli is not seeking 'infitah', Egyptian style. Unshackling the economy and trying to ensure that the state runs more smoothly in the many areas it dominates does however mean that greater freedom than exists at present will have to be granted and guaranteed to private enterprise.

Francis Ghilès

Historical perspective

A strong political identity

● A detail (left) from "Woman and Child," one of the works of M'hamed Issiakhem, Algeria's most famous painter.

WHEN THE first shots were fired on November 1, 1954, at the start of the "evenements d'Algérie," in a remote area of the harsh Aures mountains, none of the participants in what was to become one of the bloodiest wars of liberation this century ever dreamed that Algeria would be independent less than eight years later.

The six members of the Revolutionary Unity and Action Committee who had decided to begin open warfare on France faced some formidable obstacles. They would have to start guerrilla-style operations in a country which had been for over 70 years a part of France, three "départements" in fact.

Algeria had more than 1m European settlers. To establish their authority over the hundreds of thousands of Algerian workers living in mainland France they would have to contend with the old-established Movement for the Victory of Democratic Freedoms, (MTLD) led by the veteran and still popular "Zaim," Messali Hadj.

Then, of course, the Front de Libération Nationale (FLN), as the insurrection forces were soon to become, could hope that some of the more moderate nationalists such as Ferhat Abbas, who until the late 1940s still believed that the French might keep their promises and give equal rights to the 10m strong Muslim population, would join them.

From the beginning the FLN's aim was independence. Many of the "pieds noirs" settlers, mainly Europeans of humble means, would never bring themselves to understand, let alone accept, that the seemingly passive acceptance of French domination by the Muslims was coming to an end.

They were not the ones to read Jacques Berque who had written in the 1930s that the peasantry of Algeria seemed to be absent from its own land, dispossessed materially but—perhaps even more importantly—spiritually. They were fast losing their cultural inheritance.

Unlike neighbouring Tunisia, where the indigenous bourgeoisie resisted the dominance of French and slowly learned more modern ways, or Morocco, which preserved its monarchy and therefore its cultural and political identity, the Algerian state, nominally run by a Deye appointed by the Sultan, collapsed after the French invasion of 1830.

In the 41 years it took to subdue northern Algeria half the population is estimated to have been killed, to have died of various diseases or fled the country. The methods of the French army caused soul-searching even among some of France's most hard-bitten army officers.

Alexis de Tocqueville wrote about French Algeria as prophetically as he did about the US: "All this will end in a sea of blood," he noted after describing the young colony as "La France sans lois et sans hypocrisie" ("France without laws and without hypocrisy").

Another chronicler, Louis Veuillot, said of Algiers that it had become the "sewer of the Mediterranean."

The colony prospered, for a few wealthy French settlers, its opulent vineyards the admiration of all visitors. Native land was expropriated on a massive scale in the richer northern area and the Muslim peasants became labourers on their former properties.

By 1939 Ferhat Abbas was saying: "If I had discovered the Algerian nation I would be a nationalist and I would not blush for it as a crime. But I would not die for an Algerian fatherland because such a fatherland does not exist."

A new class of rich Muslims was built on the ruins of the old who admired the wealth and modernity of France, but its influence was minimal. Other nationalists disagreed, and history supports them.

The eight-year war of liberation was bitter and bloody as the growing number of guerrillas fought an increasingly brutal French army. A civil war developed among both the French and the Algerians. The FLN had to fight the MTLD, both in Algeria and France, while different "wilayas" (Regional FLN command units) often indulged in old tribal feuds. Many Algerian native troops fought alongside the French and committed some of the worst atrocities.

The French fought each other, bringing down a few governments of the Fourth Republic between 1954 and 1958 and finally the régime itself. In Algiers in 1960 General de Gaulle faced an insurrection of his own officers and was often the target of assassination attempts by ultra-right-wing French groups who formed the Organisation de l'Armée Secrète (OAS).

These, with the help of former Israeli commandos, turned on innocent Muslims in 1961-62 with savagery.

Torture was institutionalised by General Massu, the French commander, during the Battle of Algiers in 1956. It was widely practised and napalm was used in Kabylia from 1959. Aircraft, such as that carrying some of the FLN leaders from Morocco to Tunis were hijacked and brought down in Algeria by the French army without the knowledge of the French Government.

The FLN's Fédération de France financed much of the war but its rôle was recognised only after President Chadli Bendjedid came to power in 1979.

Meanwhile, after the signing of the Accords d'Evian between France and Algeria in March 1962 the Armée de Liberation Nationale units based in Tunisia and Morocco returned to Algeria in July 1962 to play a crucial role in helping the charismatic Ahmed Ben Bella and the chief of staff of the ALN, Col Houari Boumedienne take power. The Government Provisoire de la République Algérienne, presided over by Ferhat Abbas, was effectively scuttled.

Three years of increasingly demagogic rule were brought to an end on June 19 1965 when Col. Boumediene staged a bloodless coup. Ironically, the tanks which were out in the streets for the shooting the film "The Battle of Algiers" were put to real use that night.

In the years that followed President Boumediene began a campaign to educate a population which was 85 per cent illiterate, build a heavy industrial base, socialise agriculture and set up the administrative machinery of a modern state. In foreign affairs his strident plea that a greater share of wealth from the North be granted to the South caused admiration but more often annoyance in diplomatic and governmental circles in the West.

Many people who knew Algeria paid tribute to its young, often gaunt looking but well-briefed diplomats, however. The decision to nationalise foreign oil interests, especially French ones, in 1971 led to open economic warfare.

Three years later the quadrupling of the price of oil put President Boumediene on to the world stage as Algeria initiated the first special United Nations conference on issues which had previously not been of great interest in Moscow, Washington, Paris, and London.

But the other side of the coin was the increasing harshness of the regime, the collapse of agriculture, which resulted from the "Révolution Agraire," and the slow deterioration of urban living conditions. However people were promised and got cheap food, health care, education. The achievements in developing hydrocarbons were impressive. The past still hangs heavy as Algeria seeks to establish its own cultural identity in a psychologically confusing situation created by being both Arab and African, Third World and Mediterranean, Islamic and socialist.

Industrial output

Need to produce more and cut back imports

SELF-RELIANCE—"*compter sur soi*"—is the watchword among Algeria's industrial policy planners as the country confronts the sharp fall in its hydrocarbon earnings. From the giant El Hadjar steelworks to the smallest local factory, the emphasis is on reducing imports.

Where skills are lacking, foreign groups are brought in to set up factories and train local workers. The aim is to make the best possible use of available resources and manpower: even the private sector is being drafted into the campaign.

Many large operations have been scaled-down and divided into smaller, more manageable units. In many cases this has been accompanied by managerial and financial restructuring in an effort to curb wastage and boost productivity.

In tandem with this drive for self-reliance, the policy seeks to broaden the country's industrial base by establishing centres in the High Plains and the south, such as the planned car assembly plant at Tiaret which is being discussed with a number of foreign groups and will have a capacity of 30,000 cars a year.

In the heavy industry sector the focus is on steel because of the sector's key role in supplying other priority industries such as agriculture, water engineering, construction and transport.

The country's demand for steel has risen 17-fold since independence: in 1962 the figure stood at 180,000 tonnes and had increased to 3m by 1985—only 40 per cent of which was provided domestically. The El Hadjar complex was built in 1964 with the help of foreign groups—mainly France, the Soviet Union and Italy. However, last year it produced just 75 per cent of capacity, producing 1.3m tonnes.

To meet this shortfall the government planned the Bellara steel complex near Jijel on the northern coast but that project has now been shelved because of the squeeze on funds.

The country's other main industrial activities are found at the petrochemical complexes at Skikda and Arzew, whose products include polythene, PVC, chlorine and fertilisers.

During the 1980-84 Plan, output in the non-hydrocarbon sector increased sharply—apart from mining. This reflects the fact that many plants improved their productivity-production ratios, while at the same time new production units were coming on stream.

In the heavy industry sector sales had begun to register a slowdown as early as 1982. Last year, steel and iron products led the sector's expansion in output, followed by electrical goods. Production of vehicles and mechanical goods was stagnant.

In the mechanical construction sector, Algeria's main preoccupation has been to provide its own vehicles and materials for industry and its public works programme. The main vehicle factory is located at Rouiba near Algiers and was founded by the French Berliet group before independence.

Berliet, now incorporated into Renault, is still a partner in the manufacture of 35 tonne trucks.

In line with the Government's self-reliance policy 70 per cent of the components for these vehicles are produced in Algeria.

At the Hussein-Dey factory, also near Algiers, the level of integration of components is 80 per cent, for example.

Just outside Constantine, at Ain Smara, another factory produces compressors and rollers for levelling road surfaces, mainly for use by the public works sector. Technical assistance in setting up the factory was provided by Ingersoll-Rand of the US, which also trained the workforce.

The equipment is powered by engines provided by another local factory specialising in the manufacture of tractors, mainly for the home market but also for export. These engines are also used to power bulldozers and cranes constructed at another nearby factory.

These factories — or production units as they are called — are becoming more and more widespread. One such unit, Simco, employing more than 500, is based near Constantine and has produced a small hydraulic truck using local design and construction skills.

Like most of these units Simco comprises several workshops, each performing different jobs and providing complementary products. Thus, the Simco truck is almost entirely produced in-house — apart from the tyres and gearbox.

These units are usually set up with easy term loans from the government and often involve a foreign partner at the outset.

Once the unit becomes viable it pays back the loan. The idea is that each region or local area will have several units each producing much-needed and hitherto-imported goods. As far as possible the aim is to establish enough units to provide a local industrial fabric — once the needs of the region are served other regions and ultimately other countries can be supplied.

In many cases the production costs of these units are higher than the cost of imports although this is regarded as an acceptable price to pay for preserving hard currency and achieving the long-term goal of self-sufficiency. These units also provide the opportunity for private sector involvement and many small privately-run factories now work side by side with them.

The units also fit in the broader framework of switching investment funds from the heavy industries favoured by the previous plan, a policy which had led to imbalances because the "industrialising industries" were not sufficiently integrated with the secondary industries they were supposed to support.

The switch also reflects the aim of satisfying demand for consumer goods which account for about 12 per cent of imports.

Integration between and within sectors has emerged as a key feature of current industrial policy. Among the areas due to be upgraded and expanded are mining research and local production.

In addition, the Plan envisages expanding machine tools capacity to help increase output of quality capital goods. Capacity for engines, heavy steel supports, heavy machinery and electrical equipment is also scheduled to rise, although here as elsewhere restrictions on government funds may curb these plans.

In the foodstuffs sector, the aim is to reduce reliance on imports and co-ordinate agricultural output with the food processing industries—now running more than 22 per cent of the total import bill. Output of wheat flour and semolina reached 2.29m tonnes in 1985, against 2.23m tonnes in 1984—well ahead of the 1980 level of 1.5bn tonnes.

Sugar output (155m tonnes in 1980) dropped to 214m tonnes from the previous year's 229m tonnes.

Beer production, which posted 544,000 hectolitres in 1980 was down to 522,000 hectolitres last year.

In chemicals it is recognised that the range of products needs to be broadened and that the construction of soap and detergent factories needs to be speeded up.

Cloth production totalled 97m metres in 1985 (98m in 1984). The 1980 figure was 52m. Ready-mades fell to 21,699 units from 1984's 24,268 level. Shoes output also fell, to 17,730 pairs in 1985 against 18,138 in the previous year. However, goat and sheepskin production rose from 52m sq ft to 56m sq ft.

Apart from its hydrocarbon reserves, Algeria possesses considerable mineral resources. Mineral production, largely centred on phosphate, iron ore and mercury, is mainly concentrated in the east. In 1985 iron ore production—which had held steady at 3.7m tonnes for the previous three years—slipped to 3.4m tonnes.

Phosphate continued to improve and registered a 22 per cent increase in output and a subsequent rise in exports. Mercury staged a strong recovery and its exports continued to expand.

Despite the government's commitment to alleviating the housing shortage the targets in the 1980-1984 Plan fell about 35 per cent short of its planned 700,000 mark. The current Plan has set a target of 542,000.

The rate of completion for 1985 was on schedule and output in the sector is expected to rise, increasing demand for cement, bricks, tiles, and steel and metal fittings—already some 45 per cent of total steel output is required by the construction sector.

The country's 10 cement works are operating at only about 65 per cent of capacity and officials say more investment is required to boost this figure and cut imports. When this will be available is debatable. Brick and tile output is however being developed, creating an important role for the private sector.

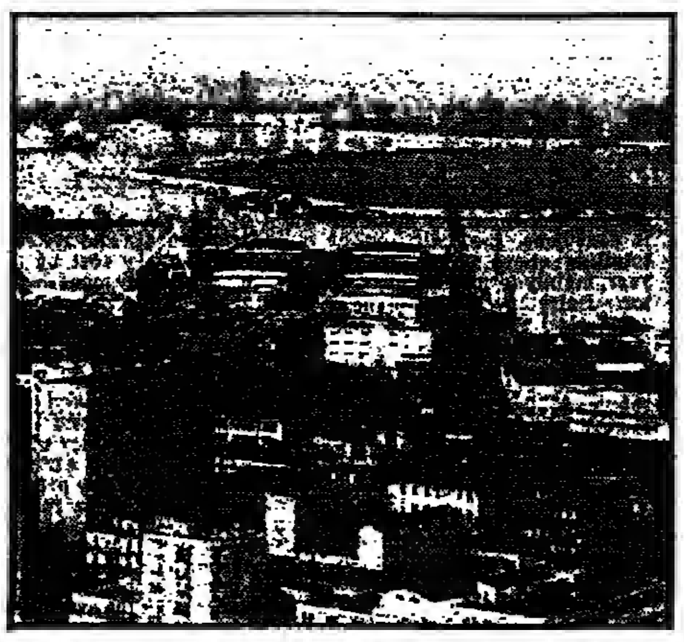
The brick and tile sector also fits in with the Government's desire to decentralise industrial production away from the northern coastal belt— already cement factories are producing in the south.

An example of Algeria's determination to diversify its product line can be seen in the once ignored glass sector— where the country hopes to make good use of its abundant supplies of sand.

Officials believe the sector holds strong possibilities for both domestic and scientific applications, especially in the light of the proposed car assembly plant at Tiaret.

If all goes to plan and the economics outlook brightens it may well be that the Constantine tractor factory will provide the engines while windscreens will be supplied by a factory in the far south, using the most abundant of Algeria's raw materials.

Patrick Butler



Algeria's 1,200-km coastline is served by 14 ports. The Government is seeking to double the size of the home fleet capacity

Transport development

Rail improvement a priority

UNTIL 1979, Algeria's transport infrastructure had languished at the expense of other sectors of the economy. In that year the Government's 1980-84 plan set out to correct this imbalance and develop the sector, now regarded as a vital link in efforts to achieve economic self-sufficiency.

The aim is to upgrade the existing network—which is largely confined to the industrialised, heavily populated northern coastal belt—gradually extending its cover to the southern region. For years, Algerian railways suffered from under-capitalisation, allowing the lead to be taken by road transport which now accounts for 85 per cent of all passengers carried overland and 84 per cent of goods.

Although the measures contained in the previous plan led to improvements, development has not kept pace with the country's population growth or infrastructure ambitions. Delays, breakdowns and derailments are common, with a corresponding shift towards other forms of transport.

Algeria's railways cover a total of 4,000 km, of which about one third is narrow gauge unsuitable for modern trains.

In 1985, 47m passengers and 12.7m tonnes of freight were carried.

The key to the latest railway development scheme is the High Plateaux project to link the Moroccan and Tunisian borders, just south of the northern belt. Work on the $600m project began in 1982 and is advancing slowly. Part of the project is being completed by soldiers during their national service but the Government is keen to recruit foreign know-how and an Indian railway group is also involved.

An Austrian company is helping to upgrade the 60 km El Harrach-Thenia line south of Algiers. In the east, the French Bouygues group has almost completed work which extends the line to service the planned steel complex at Bellara and the new port of Jijel.

However, like every aspect of Algerian policy, the pace and scope of development continues to be dictated by the world price of oil. Earlier this year the Ministry of Finance cut the railway investment budget and several projects—including plans for a metro in Algiers—have been cancelled or postponed.

The proposed 55 km line linking the planned aluminium complex at M'Sila in the High Plateaux with Bordj Bou Arreridj—for which a study was carried out by a Belgian group—has been postponed: so has the aluminium complex.

A planned line between Tebessa near the Tunisian border and Ain M'Lila, where the contract had already been awarded to an Italian company, has been shelved until 1988.

The shortfall in rail transport has been largely made up by road carriers, making use of the country's relatively well developed 60,000 km of roads.

Road transport is the responsibility of the state agency Société Nationale des Transports Routiers (SNTR) which handles freight, and Société Nationale des Transport de Voyageurs (SNTV) which carries passengers.

One preoccupation with road policy planners is to improve the overall service and reduce wasteful practices. Careful co-ordination is required to ensure that vehicles make the best use of capacity and schedules and reduce the cost to the customer.

One option being considered is to allow private sector involvement. Easier regulations to allow this are being studied, as is the feasibility of hiring local private sector equipment if this can provide a more efficient service.

Air transport has developed strongly since Algerian Independence and registered a 30 per cent rise in traffic during the 1980-1984 plan. Air transport's privileged position largely reflects the country's often difficult terrain as well as the limitations on road and rail. In addition, domestic fares have been kept comparatively low in order to open up the outlying southern regions.

For air transport, the current plan follows the broad policies being applied to road and rail transport: the completion of work on facilities serving the north and their extension to include the south. Here again, export earnings will decide the projects' ultimate fate.

Plans to construct a new international airport in Algiers, allowing the existing facilities to be used solely for domestic flights, have already run into cash problems and look likely to be shelved.

Decisions on where to allocate available resources need to be balanced against the fact that Air Algerie's fleet of 20 aircraft will soon need replacements. Extra capacity was being considered before the latest cash squeeze and the company had bought two airbuses with the intention of buying more. That plan has now been postponed.

However, government restrictions on Algerians travelling abroad—designed to preserve the country's hard currency levels—and France's recent visa requirements may so reduce international traffic for the present fleet to suffice, at least temporarily.

Air Algerie operates on 38 international lines, on which it handled 2.25m passengers in 1985—a 274 per cent rise on 1975 figures. Freight volume rose by 3.53 per cent and receipts were up 14.4 per cent. However, the company saw its share of international passengers drop from 54 per cent to 51 per cent.

Of Algeria's 31 airports—of which 11 are of international standard—the four main ones, Algiers, Oran, Annaba and Constantine dominate, taking 90 per cent of passengers and 93 per cent of freight. However, Algiers alone handled the vast majority of all traffic.

Algeria's 1,200 km coastline is served by 14 ports—12 which handle varied goods and two specially designed for hydrocarbons traffic. These last mentioned, Arzew near Oran and the eastern port of Skikda el-Jedid, handle about 50m tonnes of hydrocarbon exports every year, representing 98 per cent of Algeria's export earnings.

Annual imports are estimated at 60m tonnes of which only 25 per cent is carried in Algerian-owned vessels. The government wants to boost the home fleet size to double this capacity and cut the cost of leasing freighters.

The plan originally allocated $800m for maritime transport development with a view to buying 12 cargo vessels—eight of which are to replace existing stock—at a total cost of $300m. Some 11 new hydrocarbon tankers were also planned, costing $150m.

Much of the funds available for the sector are being allocated to completing projects due to be carried out during the previous plan. One major project is the construction of the new port at Jijal which will eventually serve the planned Bellara steelworks.

Patrick Butler

Agriculture

A real revolution gets under way

THEY used to talk about the "Révolution Agraire" and at least until 1980 the phrase was part of the title of the Ministry of Agriculture.

As the larger formerly French-owned farms were taken over by the state after 1962, and many Algerian-owned private farms were expropriated in the 1970s, rigid work practices and low prices paid to farmers, as well as heavy subsidies for staple foods, combined to depress output, increase imports and drastically reduce the variety of fruit, vegetables and meat available on the market stalls.

Eighteen years after independence Algeria was importing more than half the food its 20m people ate. Food imports cost £1.46bn in 1983, rising to £1.1.82bn in 1985, or roughly 20 per cent of its total imports. That percentage will rise sharply this year as the country's purchasing power abroad is cut by 40 per cent.

Many conditions in farming have begun to change, however. Socialist rhetoric has died away and a real farming revolution is under way. The title of the ministry, recently renamed Ministère de l'Agriculture et des Pêches, points to the priority it now affords to production rather than ideological considerations.

Col. Selim Saadi introduced the new mood of realism after 1980, followed in 1984 by Mr Kasdi Merbath, a man once much feared when he ran internal security for the late Président Boumedienne and now intent on showing how efficiently he can help to revive a sector which the government considers of strategic importance.

In 1985 farming enjoyed its best year since independence, with production up 25 per cent. Helped by a record harvest of wheat, barley and potatoes, the value of production overall was Dinars 24.3bn. Good rainfall helped but the strong upsurge in productivity is unmistakable.

Producers' prices continue to rise and in the past two years they have gone up 50 per cent. Due to several miscalculations about consumer demand, there have been shortages of eggs, beef and pulses. Large tonnages of these commodities were bought in 1985 and to a lesser extent in 1986.

In 1984 farming accounted for about 8 per cent of gross domestic product and 22 per cent of total employment. As the 1985 grain harvest nearly doubled to 3.05m tonnes, these percentages increased. Two-thirds of this grain was grown on private farms, while total yields increased by more than half to 20-30 quintals per hectare in the main growing area.

Yet grain equivalent imports in 1985 were more than 3m tonnes as substantial inventories were built up to take advantage of low international prices for wheat. The need for further improvement remains, especially since the population growth averages 3.2 per cent a year. Algeria now produces 40 per cent of the grain it consumes, against 20 per cent four years ago.

Citrus output on the other hand, fell further last year, reflecting the decline in output from aging trees. It will be years before the ill effects of siting cement plants in rich citrus-growing areas such as Oued Sli are made good.

Irrigating such areas will also have to wait until the big investment in water supplies now being undertaken takes full effect. Date production is down to 100,000 tonnes, half its level of five years ago.

Vegetable growing is increasing sharply, helped by more flexible pricing and better marketing methods begun in 1981-82.

Livestock statistics are less reliable, but in 1984 all kinds of animals suffered losses as a result of the severe drought.

The wide-ranging reforms implemented during the past six years, including the liberalising of pricing and marketing, have helped to strengthen the incentives to farmers; but the average age of people working on the land (55) and the shortage of suitably trained men remain an obstacle to faster growth.

Loans to farmers are increasing. Until 1980 they were not available to the private sector. Now with the aid of the Banque Algérienne de Développement Rural (BADR), private farmers have seen a more than fourfold increase in credit since 1983.

But the figures for the private sector are still small compared with what the state farms get and many of these still run large deficits.

Fertiliser distribution remains another weak point. The amount used is not known precisely and the way they are applied seems erratic.

Multi-purpose local co-operatives could be useful. Their job would be to facilitate collaboration between state and private farms for crops needing much labour, hiring out machinery and training workers.

Meat production, apart from poultry, is growing much more slowly than that of cereals and vegetables. About 90 per cent of cattle are owned by the private farmers but production constraints include the irregular availability of fodder and lack of capital to buy new herds.

Prices for live animals for slaughter are still too low to give farmers an incentive to expand their herds.

Townsfolk have become used to eating meat regularly because of their higher incomes, yet this rise in consumption has occurred at a time when the population is increasing and meat production is falling.

Algeria's 15m sheep are an important asset and the authorities now intend to move one-third of the total north, away from the overgrazed lands further south.

The country now provides one-third of the dairy products it consumes, the milk output totalling about 930m litres a year, mainly from the state sector. Dairy products include some good cheeses of Camembert and Brie type.

The fishing fleet has increased in numbers during the past few years. Private fishermen have been helped to buy new small boats, especially west of Algiers, where fishing is an age-old occupation.

The first new ports since 1930 are being built and facilities at existing ones, notably Beni Saf, Azzefoun, Annaba, Jijel and Collo, extended. The state-owned Enapeche is modernising some of its fish-processing plants. This is an industry in which private enterprise is also active.

Since 1980 the catch has thus nearly trebled to 92,000 tonnes. The high price of fish indicates the substantial pent-up demand for sea-food.

The new national charter, ratified last January, emphasises the important role the farming sector will continue to play in the economic development of Algeria. Although the state farms remain and are supported at a heavy cost by the Government, advances are being made in the private sector. New land is being sold off and loans are increasingly available.

Regenerating the land will inevitably be a long and arduous task. The policy which sought to promote an agrarian revolution—even at the price of having "villages de la révolution agraire" inhabited by civil servants—came after farm workers had occupied the former colonial domains of the "pieds noirs" in the summer of 1962.

Algerians who during the long years of French rule had worked on the land they once owned had only one wish—to recover their property.

The massive expropriation of land by the French in the 19th century had thrown much of the rural population off the richest soils and forced many of them to retreat to the barren south.

This caused the degeneration of grazing land there and turned the once fertile cereal-growing areas in the west into vineyards of which the French owners were proud but whose production of wine contravened the puritanical Islamic mores of North Africa.

The war of liberation and its forced regrouping of country people in "fortified" villages to "protect" them from the FLN, the use of napalm in many parts of the country, the general disruption of farming after 1958 caused untold damage.

All in all many traditional skills were lost. What happened after 1962 was for many Algerians a terrible disaster and then a horrific memory, so the change of policy initiated since 1980 is welcomed by everyone.

It does carry risks, however, as subsidies are cut on major staple foods such as cereals, bread and oil, and prices overall rise sharply because too many private incomes are still chasing too little production, while the risk of social strife, particularly among the poorer town dwellers, increases.

Francis Ghilès

Around 3,000 BC, the Sahara region was lush pasture land, as evidenced by this detail from rock paintings at Adjefou from "the period of the flying chariots."

Water supply

Race to restore fount of life

WATER is the Fount of Life, wrote the Prophet Mohammed, but his teachings were neglected in the aftermath of Algerian independence.

Coming after half a century of neglect by the colonial ruler, at a time when the country's population was growing at a rate of 3.2 per cent a year, and a massive industrialisation programme was being pushed through, the result was, and still is, a shortage of water in the main centres which varies between one-third and one-half of what is needed.

Unsatisfied demand for water represents 35 per cent of production in Oran, 44 per cent in Constantine—some city-dwellers in Algiers see only a few drops of water trickle from their taps for months on end; and most of them suffer severe water shortags, especially in summer.

This state of affairs tends to encourage the intermittent spread of certain infectious diseases, not least a mild form of cholera and dysentery last summer.

The many new factories set up in the 1970s have often impaired the quality of drinking water and often made its supply to town-dwellers and farmers problematic.

The paper mill at Mostaganem is the best-known example of water pollution caused by industry in Algeria, while the nearby town of Oran has suffered from the enormous consumption of water at the neighbouring oil and gas export base of Arzew.

Wastage is high because of old piping and taps which leak or are coated with chalk deposits. In Algiers, the internal diameter of the 50-year-old pipes has been reduced by four-fifths to only 30 mm (less than 1¼ in) by chalk deposit.

A sad irony is that the French authorities have steadfastly refused to hand back the city of Algiers pipe grid, which makes modernising the system much more expensive than need be. The French argument, as with the other archives from the 132 years of colonial rule, is that such documents are "archives de souveraineté."

Since 1980 the highest priority has been given to developing new water resources. Maintaining the old system is difficult, if only because Algerian cities and towns are so overcrowded.

The budget allocation for capital spending by the Ministry of Hydraulics has increased more than threefold since 1982 and the ministry has escaped the worst of the cuts imposed on many of its peers this year. The five-year plan had pencilled in Dinars 52bn for capital expenditure on water development.

Together with farming, this sector is high on the list of priorities.

Five of the nine large new dams for which international tenders were published between 1982 and 1984 are now nearing completion.

Nine other tenders are out for dams at Arris, near Batna; Bouhallou, near Chlef; Fekra, near Bouira; Ben Zia; near Skikda; Cheurfas and Fergoug, near Mascara; Boukourdane, near Tipaza; Tichi Haf, near Bejaia; and Beni Haroun, near Mila.

The 10 dams commissioned since 1980 and the 13 others for which studies have been completed should, when completed, more than double the volume of water held by dams to 5.5bn cubic metres. Irrigation now offers farms 800 m cubic metres of water, a figure the authorities hope to double by the mid-1990s.

Expanding the water industries is thus central to the changes in economic and social policies which govern farming and industry. It is also central to President Chadli's promise to give Algerians a more comfortable life.

Four major projects, of which one is well advanced and two are to be launched soon, should help to alleviate the water supply problems of Algeria's four major cities—Algiers, Oran, Constantine and Annaba.

The World Bank is supporting the foreign currency cost of all three projects, which have attracted bids from major international companies. The "Grand Alger" project covers an area around the capital the size of Wales, where nearly one-quarter of the population lives.

The initial study for this project was completed in 1983 by W. S. Atkins and Binney and Partners of the UK, but the overall contract went to a group of Yugoslav companies, Hydrotekhnika, and work has been in progress for the past two years.

Dams, piping, water treatment plants and new sewers take the overall cost of the project to around $1m.

A number of French companies, such as Degrémont, Chantiers Modernes and OTU, are involved, while the US company, Harza Engineering is supervising certain aspects of the work. The first tranche of the project is due to be completed next year.

The contract for the Oran project has gone to Dragados y Construcciones of Spain and Conrad Zschokke of Switzerland.

The bank has, for the first time in Algeria, succeeded in convincing the authorities of the value of the public opening of bid documents. This acceptance should lead to shorter delays in handing out contracts, the better drafting of bids, and the elimination of certain petty forms of corruption. The World Bank is also interested in promoting centres where the maintenance of all machinery for water supply and treatment would be carried out.

Beyond these major projects other small-scale ones are being encouraged such as the building of small earth dams in hilly regions and the drilling of wells. But the difficulties encountered in developing such projects are real, not least the high average age of the country dwellers.

As with cereals, fruit and vegetables, the price paid by the consumer for water, did not increase between 1962 and 1982. Since then it has doubled.

When the real price of such a precious commodity as water is forgotten in a country whose resources have, since antiquity, required careful husbandry, the consequences can be dramatic. A lot of water is wasted and a big effort is now being made to prevent waste.

Francis Ghilès

Energy policies

Home demand tops agenda

TWO BENEFITS stem from Algeria's great reserves of oil and gas. They provide the country with almost all its foreign exchange, and thus pay for its development, and they meet its own growing energy needs.

While the first benefit has been emasculated by the fall in the oil price, the second has taken on an increasingly important role, and now sits at the top of all official presentations of energy policy.

This is no empty posturing—energy demand in Algeria is booming, and consumption is growing at an average rate of 10 per cent a year.

In less than 15 years' time Algeria will consume more energy than it exports, with demand which in 1975 accounted for about one tenth of production, expected to rise by the turn of the century to over 60 per cent. By then, Algerians will be using 65m tonnes of oil equivalent each year—nearly three times current annual consumption.

Preparing for such a rise in demand is a formidable task, and one that is given top priority by the Government. Despite the ever rising cost—this year alone, Sonelgaz, the spawning gas and electricity utility, is planning to spend DN 4.5bn—domestic energy policy is proceeding on course despite belt tightening and budget cutting elsewhere.

The money is being spent in two ways. First and most expensive it is being used to expand the country's capacity to generate and distribute energy, and secondly to boost the use of gas and reduce consumption of oil and of solid fuels.

Fostering such substitution is an essential part of the overall energy policy. Algeria has the fifth largest gas reserves in the world, compared to fairly small and shrinking reserves of oil.

At present rates of production, oil may last for less than two decades, while gas will go on pouring out well into the next century. Not merely scarce, oil is also cheaper and easier to export than gas, making it important to use gas wherever possible for domestic needs.

Since the first gas came on stream in the mid-1970s, huge investments have been made in building gas fired power stations, and in converting factories and hospitals to gas.

The single largest undertaking has been the Rural Electrification Project, which aims to bring electricity to every home in the country by the year 2000. The plan started about 10 years ago is costing about DN 1.5bn a year, but has kept well to its course. Already 83 per cent of homes in Algeria have electricity, with all the more densely populated areas now supplied. Attention is now on the more remote areas.

As the network expands, power stations to supply it are multiplying. Algeria now produces about 3,500 megawatts of energy from its gas fired power stations, and plans to have at least doubled its capacity in 10 years time. An extra 1,700 Mw is due to be available by 1991, while six more 300 Mw stations are planned to be ready by 1995.

In tandem with the spreading electricity cables, a mighty gas grid, containing 10,000 kilometres of pipe has been built, serving most towns. Some 35 per cent of Algerian households now have gas, a percentage that it will be difficult to improve on due to the spiralling cost of extending the grid into wilder and more remote parts of the country.

The arrival of natural gas in many towns has brought about a wave of conversions by industrial users, which had hitherto relied on more expensive solid fuel.

However, it is not just large users which are being converted. The substitution drive has concentrated on cars, which are being adapted to run on Liquefied Petroleum Gas rather than on petrol, which can be more profitably exported.

The public sector's large fleet of cars now runs on LPG, and private investors are being heavily encouraged to convert their cars. As a disincentive to using petrol the Government has kept the price artificially high — a litre costs DN 5, or a gallon the equivalent of £2.50, while LPG costs roughly half as much.

By its own standards this scheme has been moderately successful, and has at least cut by half the annual growth in petrol demand in Algeria's car crammed cities. However, the policy itself does not seem to have been well thought through. Compared to natural gas, LPG poses few problems as an export, whereas the costs of distributing it widely and storing it for the convenience of every converted motorist are enormous.

Nevertheless, there are few signs that the Government is prepared to opt for the more reasonable South American solution of converting cars to run on methane, and instead is planning to press ahead with 100,000 LPG conversions (at about DN 2,500 per car) by the 1990s.

Until recently, Algeria has concentrated more on the problems of managing domestic demand than on ensuring supplies of energy into the distant future. The complacency which may have been encouraged by its vast reserves is receding, and over the past few years more time has been devoted to ways of offsetting the steady erosion in oil and gas reserves.

While considerable progress has been made in developing renewable sources of energy, the Government's stated intention to encourage more oil and gas exploration has taken until this summer to be translated into action. However, delay may have cost it dearly — the new hydrocarbons law introduced a few months ago, which is intended to make Algeria a more attractive place for foreign companies to drill, has fallen foul of the fall in the oil price.

The law, the first comprehensive piece of oil legislation to have been drawn up, makes several important concessions, including giving foreign companies the chance of a share in gas finds, which previously were automatically claimed by Sonatrach, the state-owned oil company.

However, bigger incentives will probably be needed to send foreigners rushing to Algeria, reversing the exodus that has taken place over the last few years. Following the collapse in the price of oil, companies are desperately looking for ways to cut, not to stretch, their exploration budgets.

Three years ago the Government became concerned at the slide in drilling activity, and about the number of oil companies which were letting their permits lapse.

The number of wells had dropped by about a third in two years, and has now fallen further with only 25 exploration wells likely to be drilled this year, only a fraction of the number needed to maintain the level of reserves.

Meanwhile, Total, Texaco, Shell, Amoco, and Sun are among those which have recently ceased looking for oil in Algeria, leaving only two or three foreign companies still active. The retreating foreigners have complained about the high taxes, unattractive terms of profit sharing, and about the obligation to use Algerian drilling firms.

Some have found that the industry operates increasingly inefficiently. Exploration wells which should take about three months to drill can now take up to a year, with spare parts often difficult to obtain.

Some US companies have estimated that the cost of drilling in Algeria is now about DN 8,000 a metre, making it one of the most expensive onshore drilling areas in the world.

Nevertheless, the chances of finding oil and gas in Algeria remain good. Sonatrach estimates that less than half of its recoverable reserves have been discovered. The country has 1.2m sq kms of more or less virgin acreage, and while much of the land is too remote or geologically unpromising, exciting areas remain to be explored, especially in the south-east.

Lucy Kellaway

Oil and gas production

	1980	1981	1982	1983	1984	1985
●Natural gas (bn cubic metres)						
Net production	29	31	36	45	46	50
Domestic consumption	4.6	5.3	5.8	6.2	6.6	7.6
Exports of liquified gas	6.6	7.4	10.4	16.2	12.5	13.1
Exports via pipeline	—	—	—	2.3	6.9	9.1
●Oil production (million tonnes)	52	47	46	45	47	48
Crude oil production	47	38	34	31	33	34
Condensate "	4	9	12	14	14	15
LPG "	1	1.3	1.6	1.5	2.8	3.2
Refined oil products prod.	10	13	18	17	19	19
●Oil exports	38	33	22	27	27	28
●Crude exports	34	35	11	14	13	n/a

Source: Algerian Government statistics

NEW LAW AIMS TO BOOST EXPLORATION

ALGERIA'S new hydrocarbons law was passed in August. It is intended to encourage foreign companies to look for oil and gas, and is thought to put Algeria roughly on a par with laws operating in China and Brazil.

THE OLD SYSTEM: Foreign companies were invited to form a joint venture with Sonatrach, which held a majority stake, and which had title to the reserves. The foreign company could be "operator" only during the exploration phase. If gas was found, it was treated as an unsuccessful search for oil, and Sonatrach took 100 per cent of the find.

Discoveries of oil were divided up according to the stakes in the partnership, with the foreigner paying royalties of 20 per cent on its share of production and a gross profits tax of 85 per cent.

THE NEW SYSTEM: The following changes have been made to the old system:

- Gas discoveries will now be treated in the same way as oil discoveries.
- Foreign companies can operate fields during production as well as exploration phases.
- Returns on successful discoveries to take one of three forms:

☐ The company takes its share of production on which taxes are paid as before.

☐ The company takes a slice of production equal to a reimbursement of costs plus tax-free negotiated profit.

☐ As above, only payment is made in cash. This option can apply even when no oil is discovered.

- A system of zones has been set up to encourage activity in difficult and remote areas. According to the zone, royalties can be reduced to a minimum of 12.5 per cent and tax to 65 per cent.
- Provision can be made for further refunds and still lower taxes in exceptional circumstances.

Lucy Kellaway

Gas exports

Buyers win fresh concessions

IN SELLING its oil and gas abroad, Algeria has typically driven a hard bargain. Through a mixture of shrewd calculation and good fortune it has succeeded in squeezing the maximum out of its resources.

Over the last couple of years, however, its advantage has been slipping away. Not only has it—like all other producers—seen prices collapse, it has been hit by falling volumes of gas exports, on which the country is increasingly dependent.

Harder times seem to have discovered in Algeria a willingness to compromise in negotiations with the buyers of its gas. As Mr Sadek Boussena, energy secretary, said last month: "As in a marriage, one of the parties must always accept that they have to adapt in order to preserve the relationship."

Until recently Algeria has made sure that most of the adapting was done by the buyer. This year it has entered into talks willing to make concessions in order to reach long-term agreement with its trading partners.

Evidence of the new approach appeared in the deal reached in September with Italy, Algeria's most important customer, and is likely to be reflected in similar agreements with Spain and France. The deal for the first time puts Algerian gas on a more or less competitive footing with rival supplies from the USSR, the Netherlands and from Norway.

Unlike other suppliers, Algeria had long insisted on tying the price of its gas to a basket of official crude prices, a pricing ploy loathed by its buyers who claimed that gas should be priced with reference to oil products, with which it competes.

The compromise reached with Italy has been to index the gas price to oil on a "netback" basis. This allows Algeria to retain its principle, the oil-gas link, but for Italy it signals an improvement as netback prices are themselves calculated according to movements in oil product prices.

Algeria has shown that it can be flexible on volume as well as on price, by agreeing that Italy, which is making rather slow progress in expanding its internal gas network, may cut its minimum take by about 20 per cent to 10mhtu.

According to calculations by the Financial Times International Gas Report, the effect of the deal will make Algerian gas barely more expensive than Soviet or Dutch supplies. The price in Rome of Algerian gas at the beginning of October is estimated to have been about $2.80mbtu, compared to a Dutch and Soviet border price of about $2.25mbtu.

This marks a significant change in position over the last two or three years. Partly as a result of linking the gas price to oil, which was then rising sharply, and by cajoling European Governments into paying a political premium for Algerian supplies, prices were sometimes allowed to creep some $2mbtu above the cost of obtaining rival supplies.

The political premium plays no part in the Italian new deal at all and is most unlikely to be reintroduced in other contracts. Over the last three years the Italian Government transferred over L500bn to Algeria, and large amounts have also poured in from other European buyers.

While the money was received on the understanding that Algeria would increase correspondingly its purchases of goods from those countries, from time to time there were complaints that expected contracts had not been awarded. Now the European Governments have stepped back, inviting their gas companies to negotiate the Algerian contracts on a purely commercial footing.

In the past, the understanding that Algeria would match its gas sales with imports of goods has hitherto proved an important weapon in securing for itself a good deal. For example, in 1983, in order to force Spain into agreement on gas prices and quantities, Algeria stopped buying Spanish goods.

After two years of such pressure, Spain finally agreed to pay $500m in compensation in return for taking lower than previously agreed gas volumes.

Algeria is no longer in a position to be able to risk such stonewalling tricks. Hit not only by the lower volumes being taken by European buyers, but by the cancellation last year of a huge US contract—which was going to involve the shipping of 3.3 trillion cubic feet of gas over 20 years—it now finds itself with a serious overcapacity in its gas liquefication plants.

This is strong motivation to find buyers for the LNG now, even those who are not prepared to sign long term contracts. This year, Sonatrach made its first spot sales of gas to Germany, and is likely to start selling soon on a spot basis to the US.

Meanwhile, the search for other long-term customers continues. Agreement has been reached with Yugoslavia, and deliveries will begin in 1988. Negotiations are under way with Greece, Turkey, the US, Brazil and Japan, and Algeria is also gently probing the privatised British Gas, hoping that it will become an important long term customer by the mid 1990s.

France may also become a much larger buyer of Algerian gas next decade if it pulls out of its agreement with the Norwegians to buy gas from the Troll and Sleipner fields to meet a quarter of its needs into the next century.

Whether or not France signs up with Norway, Troll, with its massive gas reserves, will be a mixed blessing for Algeria. Although it will have a significant effect on world gas supplies, the costs of the gas—around £4mhtu—are about twice the costs of Algerian supplies, and Algeria is hoping that one effect of Troll will be to increase the world gas price.

Unlike other Opec members, crude oil plays a fairly small part in its total oil exports, with the bulk now coming from refined products and condensates, which are not restricted by official Opec production ceilings. The merits of such diversity were plainly apparent last year, when the value of Algerian oil exports was unchanged, whereas that of many other Opec countries was down by more than a third.

Because of its relatively small, finite oil reserves Algeria is one of Opec's hawks, always anxious to secure as high a price as possible. The country hopes that events are now moving its way, and has been telling its people that the change in the Saudi oil ministers means a change for the better—a new hard-line oil policy, and higher prices ahead.

Lucy Kellaway

Tourism development

New campaign under way

ONE HUNDRED years ago a visitor's guide was pnhlished in Loodoo, entitled "Algiers, the playground of the rich." The capital city of what had been by theo a French colony for half a century was iodeed sought after by many English people: aristocratic familles oo their way to and from India, people who suffered from consumption (among them Karl Marx towards the end of his lifo), nowlyweds on their honeymoon and the more flamboyant characters such as Oscar Wilde. Such visltors were eocouraged to stay by Sir Robert Playfair who represented Britain in Algiers from 1867 to 1896.

Many houses in Algiers, particularly on the hill known as Mustapha Superiour, hear witness to the British genius for marrying comfort and tho local and very attractive "Moorish style." Thus the "El Djazair" hotel, until independonce the "Saint George," whose construction was sponsored by tho British coosul, is a mixture of Scottish baronial and the local style.

It was huilt in the 1880s to accommodate aristocratic visitors and its extonsion in the late 1970s left iotact the wonderful hedrooms aod reception halls decorated with local haod painted tiles, stucco work and mirrors.

What is now the British ambassador's resideoce was the British club. The Saint George was, at the ond of the Second World War tho US army headquarters in North Africa and the room where General Eiseohower slept is still shown to visitors.

The houses where wealthy Victorians sought refuge from the winter fog of tho north still look dowo over the harhour and densely populated city from the amphltheatre of hills that crown ono of tho Meditorraoean's most heautiful hays. They no longer houso English lords—rather governmeot guest housos or diplomatic missions.

Tho rich of the wostern world have long sinco desorted Algeria hut somo 200,000 foreign tourists are estimated to visit Algeria every year, most of whom travel to the vast expanse of the Sahara, but that is a paltry figure when compared with the oearly 2m who visit neighbouring Tunisla, a couotry whose sizo is a fraction of Algeria's laod mass.

The reasons for this ahseoco are simple. After the war of independenco, Algeria opted for iodustrialisation and sacrificed its agricnlture. Algerian loaders were husy trying to hnild a hrave new world out of the rnins of what had heen left hehind hy the colonisers.

They were suspicious of foreigners and as tho regime lurched closer to a police state io tho mid-1970s, the very idea of trying to attract tourists was thought a frivolous proposition. Oil and gas were there in ahundance and they alooo, with industry, would suffice to feed aod educate tho new generation of Algerians.

True, now hotel complexes were huilt In some places along the coast and in a few Saharao towns hut, despite being attractive huildings, they were ill-suited for their purpose. Fernand Pouillon, tho Freoch architect who designed them was dreaming whilo in exile, at a heavy cost to the Algorian exchequer.

By the late 1970s most of these hotels had fallen on hard times: their pipes were rusting, their saoitatioo run down, tho food had, if oot appalling, service sultry if not downright rudo as ooe would oxpect from personnel who are servants of the state aod get the same pay whothor they put in a good day's work or not.

This state of affairs is changing—not that tho condition of most hotols lot alone the service or food ono gets is anything hut mediocre. But the Government, faced with the sharp fall in its sole source of foreign incomo, has come to realise that a larger flow of tourists could help the halance of paymoots, let alone offer jobs which tho evor higher prico of oil for many years onahlod the state bureaucracy to create in return for very littlo work.

Determination

Some hotels have been sold to private ioterests, with mixed results; negotiations have been underway, first with the Indian chain of *Oberoi*, thon with Holiday Inn to run the El Aurassi hotel jointly with the Algerians. Tho staff rebelled, in 1985, at the idoa that their numbers would have to be cut if an international chain sought to rationalise its management.

The Governmont is, however, determined to press ahead—no easy task. Today's climate of public acknowledgement of the shortcomiogs of this sector stands out in sharp contrast to the late 1970s when the same hotel's staff voted themselves the best hotel in Africa—an award not even the most unsophisticated waiter ln the El Aurassi ever believed.

The creation of a vice-ministry of tourism in 1984 and tho sterling work being dono to promote tourism will only succeed if the private sector is given a much freer hand to invest and buy existing estahlishments.

The new private restaurants which have sprung up in and aroond tho capital city since 1980 bear witness to capacity of many Algerians to offer good service and food. As for the attractions of Algeria, they are truly endless—Allah has been bountiful when it comes to natural beauty.

Along tho country's eastern shore, mountains, often thickly clad with cork-oak plunge into the sea—many hays are only accessihle by boat while, oearer Algiers, the densely populated mouotain girt of the Kabylia regioo boasts a thousand villages perched oo steep hill tops. Farther south, the Aures mountains, where the first shots wore fired in 1954 by a then small group of rehels, display a harshness in winter which is only slightly softenod on the southern slopes by the proximity of tho large oasis of Biskra, much beloved of an earlier generation of European travellers.

The local people, Chaoui Berbers, are reputed to be tough: our driver pointed to the 05 at tho end of tho Batna number plates and jokingly said the "O is for intelligence, 5 for stuhbornness." "Of course," he added, "that is how we got rid of the Freoch."

To tho west of Oran tho high hills towards Ain Temoucheot provide a perfect setting for shooting partridge and wild boar.

Algeria is full of ruins—Berber, Roman, Arab, Freoch, all hoar witness to a violent history. Yet ruins, as Albert Camns wrote of those of the Roman port of Tipasa, can look younger than many a modern city. Monumental Berber tombs such as tho Tombeau do la Chretionno bear witness to a civilisation of which little is left.

The fortress-like city of Constantine, for 17 ceoturies the ceotre of a prosperous Jewish community, perched high above tho Rhummol gorge must have been as daunting to besiege for the Romans as lt proved for the French forces in 1834 and 1837.

Romao ruins ahound: Timgad built 19 ceoturies ago to house Agustus's Third Legion and where a 4000-seat theatre and monumental gate suggests that the inscriptioo on a flagstone in the forum—"To hunt, to bath, to play, to laugh, this is to live" summed np tho life of its 15,000 inhahitants; Djamila perched high ln the hills on a road that seems to lead nowhere.

Muslim remains such as the Kalaa des Beni Hamad—a vast amphitheatre high io the hills near Setif where only the tower of a mosque has been reconstituted from the remains of a former capital that flourished in the middlo ages—are less well preserved, in part because the history has heen cruel, and not only after the French arrived in 1830. However, the half century it took to conquer Algeria destroyed many towns including Constaotine and large areas of Algiers.

Tho French built a lot but much of the architecture is mediocre: however parts of Algiers retain a distinctive Italian feel to them and Albert Camus stressed how Spanish, in contrast, was "l'eclat cruel d'Oran," a town which still boasts a hull ring and is dominated by a Moorish domed Catholic church called Notre Dame de Santa Cruz, hardly a surprising comhination if ooe remembers the town lived under Madrid from the 16th-18th centuries and Spanish emigrants outnumbered the French in tho area throughout the French colonial period.

But it is the greatest desert in the world which remains this country's best asset: the beauty and variety of the desert are difficult to conjure up for those who have oot visited it, so is the reserved yet welcoming and frank manners of the natives who often feel their brothers in tho North belong to a different land.

It is hest to start with the town of Ghardaia. In reality there are five small ochre and white towns built on small hills which lio in a vast depression in the desert. They are surrounded by oases. The puritan Mozabite sect, which founded tho towns nine conturies ago after fleeing persecution in the north, built houses and mosques of tho utmost simplicity which, earlier this century, inspired the architect Le Corhusier.

The buildings are reminiscent of those found in Mali and Niger. Sadly two mosques have recently beeo built in mock Andalucian style which does not accord with the traditional surroundings. Snch vandalism is not limited to Ghardaia and is causing uotold damage to othor Algerian towns.

The imposing facade of the Kechawa Mosque in central Algiers. It was built in the 18th century.

Further west, the oasis settlement of Taghit springs into sight at a hend of the road sitting on a small ridge above an oued (river) whoso banks are planted with date palms and dominated by a very high sand tune. Too much like a picture postcard maybe, but none the less attractive.

Timimoun is an altogether grander affair, built on a high ridge above a vast sehkha (dried lake). Today, driving across the salt-encrusted sand at sunset reminds you of tho snow-covered Russian taiga in winter.

The oasis is most attractive and rolls down the slope which lies between tho town and the sehhka: thousands of water conduits, still suhject to age-old property laws, feed the miniature fiolds whore wheat, potatoes and vegetables grow.

A strange petrified forest unfolds below tho plane as ono prepares to land in Djanet. Thousands of dark silhonettes march across the horizon, reminiscent of fir trees weighed down by snow. On closer inspection they are sandstooe needles, ooo of the many mysterious sights of tho Tassili N'Ajjer. Tassili means a "plateau with rivers" in tifinar Berber, tho language spoken by the Touareg. The 50,000 square miles of tho Ajjer offers tho visitor the largest neolithic art gallery in the world.

Djanet, one of tho crossroads of the Sahara in prehistoric time, lies 1,250 miles south of the Mediterranean coast, close to Algeria's border with Libya. It is tho largest of the handful of oases which string the 500 mile long plateau.

The sheer mineral beauty of the Ajjer is hreathtaking. Sefar, half a day's walk from Tamrit, is a city of tall rock walls bisected by streets which are the beds of streams that ran into a nearhy lake.

Exploring Algoria is not a comfortable pastime—but the lack of comfort of most hotels, tho erratic ways if oot downright rudeness of many Air Algeire personnel are not ao insurmoontable harrier. For those who are intrepid, the trip is well worth tho effort.

Francis Ghilès

Business guide

It pays to plan ahead

Time: GMT (Nov-Apr) + (May-Oct)

Climate: coastal region, Mediterranean temperature with summer temperature up to high 30s—Rainfall: mostly Nov. March.

Inland: High Plateaux, contioontal climate with temperatures over 40° in the summer aod often below 0° at night in tho winter. Desert climate in the South.

Entry requirements

Passport: all except nationals of Algeria.

Visa: required for US, Japanese, West German, Irish Republic, French ond Dutch citizens, not for other nationals of western countries. Cannot be issued at tho border—nsually valid for 90 days.

Prohibited entry: nationals of Israel, Republic of Korea, Taiwan, Malawi, South Africa.

Health precautions: Yellow fever and/or cholora within six days of travelling from or through endemic area.

International airports: Algiers (Houari Boumediene) + car hire; Annaba (Les Salines); Constantino (Air El Bey); Oran (Es Senia) and Tlemcon.

Surface Access: Ports:- Algiers, Annaba, Arzew, Bejala and Oran. Also through Tunisia, Libya, Mali, Morocco, Niger.

Hotels: Advisable to hook well in advance and confirm day hefore arriving. El Djazair, pleasaot hotel in Algiers despite poor quality of food and slow room service; El Aurassi commands a wonderful view of tho city but feels like a factory. Hotel Royal in Oran is comfortable and boasts excellent cuisine and service.

El Djazair Tel: 591000 Tx: 52628
El Aurassi Tel: 648252 Tx: 52475
Le Royal Tel: 393144 Tx: 2290

Restaurants: Algiers boasts a number of good restaurants hut they are usually expensive—Le Vleil Alger (634686) and El Djenina (594292) offers traditional Algerian cuisine; Le Sindbad (6211065) at Pecherie, excellent fish which can also be fonnd in the more expensive Villa d'Este (819502), Chez Madeleine (819021) and El Kettani (573982). Le Sidi Ferruch, Le Bardo and Le Grill at the Ryad EL Fatah offer good European and Algerian cooking.

On the outskirts of Algiers L'Auberge du Moulin (811073) and the rather pretentiously decorated Dar El Diaf (810158) at Choraga offer good but expensive food. So does Le Gourbi (805044) at Ain Taya and the very expensive Les Flots Bleus at Surcouf to the east of the city.

West of Algiers Le Cercle Nautique (819123) at La Madrague and the simpler Ali Baba at the Chonoit near the Roman ruins of Tipasa are worthy ports of call. And if you have the necessary permits, the two restanrants at the Admiralty from where yon have a magnificent view of tho city: the Yacht Club (628578) and the Rowing Clnb d'Alger (627165). Finally good Vietnamese food can be found at La Pagode (634680).

Taxis: usually available at main hotols, identified by local colour codo (yellow in Algiers) hut seldom use their meters. Io Algiers the cost of a taxi into town is AD 100. If you are lucky, Radio Taxi in Algiers on Tel 589999.

Car hire: International driving licence and third party insurance required. Traffic in Algiers is very heavy, but, by Middlo Eastern standards quite disciplined. Algerie Auto Tourisme: Algiers, Oran, Constantino, Annaba and Arzew hranches.

Public holidays: Jao 1, May 1, June 19, July 3, Nov 1. All Muslim holidays.

Working Hours: Government and business: 8-12; 14-17.30 oxcept Thursday and Friday. Banks closed on Saturday.

Telephone: From hotels, communications with abroad usually good: Tolex service generally poor, ospecially from hotels.

The guide pnblished by Publications Economiques Internationales (5 Ruo Royale, 75008, Paris) which costs £30 is without rival.

F.G.

Key facts on Algeria

Official title: Democratic and Popular Republic of Algeria	
Area 2.4m sq km	
Population (1986 estimate) 22.6m	
Population growth rate (1985 estimate) 3.2 per cent	
Head of state: President Chadli Bendjedid	
Ruling party: Front de Libération Nationale (FLN)	
Capital: El Djazair (Algiers)	
Official language: Arabic	
Other languages: French and Berber	
Currency: Algerian Dinar (AD)=100 centimes	
GDP est for 1986: AD 320bn	

Key economic and trade statistics are given elsewhere in this survey